Fannie Mae

We have included the most recent information available at the date of publication. At the end of each section, we include a list of resources with web links where you can find updates, as well as information about additional programs and other helpful information related to the subject.

OVERVIEW

Fannie Mae is a government-sponsored enterprise, or GSE, created by the federal government to ensure access to home mortgage credit. Fannie Mae's historical mission is to provide liquidity, stability, and affordability to the U.S. housing finance system, in all communities, under all economic conditions. It provides liquidity to the mortgage market by buying loans conforming to certain standards from banks and other loan originators, thus enabling lenders to make new loans with the proceeds from the sale. Fannie Mae then issues securities backed by pools of these mortgages that it sells to capital markets. It guarantees that investors in these securities will receive prompt payment of the principal and interest due on the mortgages. Banks may sell loans to Fannie Mae individually or pooled with other loans, directly or through intermediaries.

Fannie Mae funds its operations and loan loss reserves largely through fees, which banks may pass through to borrowers. Fannie Mae charges both annual guarantee fees and loan-level price adjustments (LLPAs). LLPAs are upfront charges, which vary based on credit score, loan-to-value ratio, type of product, and various other factors.

Fannie Mae is charged with affordable housing goals.[7] It operates special programs with underwriting standards that eliminate common barriers to low-income homeownership, such as high down payments, credit history issues, and the inability to get affordable fixed-rate financing on unusual property types that tend to be more affordable, such as manufactured homes and properties with significant deferred maintenance. The goals were first implemented in 1993 and provide clear guidelines for low- and moderate-income (LMI) lending that the GSEs are required to facilitate.

MORTGAGE INSURANCE AND LOAN LIMITS

Fannie Mae requires mortgage insurance (MI) on all loan amounts that exceed 80 percent of the property value. The amount of MI coverage required varies by transaction type and loan-to-value range. Fannie Mae offers standard and minimum mortgage insurance pricing options for all loan products. Minimum MI coverage options typically carry corresponding MI loan-level price adjustments (MI LLPAs). Loan-level price adjustments are risk-based pricing adjustments that apply at the time of delivery only. MI LLPAs vary by credit score and loan-to-value and currently range from 0.125 percent to 3 percent. The table on page 95 provides the level of MI coverage required for all first-lien mortgages delivered to Fannie Mae.

Fannie Mae's regulator, the Federal Housing Finance Agency (FHFA), publishes Fannie Mae's conforming loan limits annually. Loan limits vary by number of units and by property location. Properties in areas defined as "high cost" are associated with higher loan limits. The current range for original principal balance for single-family, one-unit properties is $417,000 to $625,500 depending on the geography (two- to four-unit properties have correspondingly higher loan limits).

This Guide covers the following Fannie Mae affordable homeownership options:

HomeReady™ Mortgage: Low down payment financing with discounted fees for creditworthy LMI borrowers.

Standard 97 Percent Loan-to-Value Mortgage: Low down payment financing with standard fees for creditworthy first-time homeowners who do not meet HomeReady™ Mortgage income limits.

HomeStyle® Renovation Mortgage: Financing that covers purchase and renovation costs in a single loan.

Manufactured Housing Mortgage: Financing for manufactured homes that uses the credit standards of the home mortgage market rather than the chattel (movable property) loan market.

Refi Plus™/Home Affordable Refinance Program (HARP): Helps responsible borrowers with little or no home equity to refinance into more affordable mortgages.

DOING BUSINESS WITH FANNIE MAE

Benefits

Delivering mortgage loans to the secondary market through Fannie Mae can help community banks provide access to sustainable affordable mortgage products and responsibly expand mortgage business opportunities while limiting long-term credit, prepayment, and interest rate risks.

Delivery Options

There are several ways for banks to deliver loans to Fannie Mae. They can become direct Fannie Mae approved sellers or seller/servicers. They can participate in the MPF Xtra,[7] a suite of Fannie Mae-eligible products offered by eight Federal Home Loan Banks (FHLBanks) to their member organizations under the umbrella of the Mortgage Partnership Finance (MPF) program in which Fannie Mae is the end investor. Fannie Mae and its lender partners also work directly with many state and local housing finance agencies to provide mortgage-lending options.[8] Banks can generate loans for sale to Fannie Mae through the Independent Community Bankers of America's (ICBA) Correspondent Lending Program. Finally, banks can act as a correspondent lender by originating and funding loans, and then selling them to investors or "aggregators" that sell to Fannie Mae, and/or generate loans that are funded in the name of an investor and then sold to Fannie Mae.

[7] Detailed information regarding the Federal Home Loan Banks will be addressed in the forthcoming publication, "Affordable Mortgage Lending Guide, Part III: Federal Home Loan Banks."

[8] Detailed information regarding State Housing Finance Agencies will be addressed in the forthcoming publication, "Affordable Mortgage Lending Guide, Part II: State Housing Finance Agencies."

PROGRAMS IN THIS SECTION:

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Fannie Mae Mortgage Insurance Coverage Requirements (2016)[9]

TRANSACTION TYPE	LOAN-TO-VALUE RANGE			
	80.01%–85.00%	85.01%–90.00%	90.01%–95.00%	95.01%–97.00%
Fixed-rate, term ≤ 20 years	6%	12%	16%* + MI LLPA	18%* + MI LLPA
			25%^	35%^
Fixed-rate, term > 20 years; ARMs; and Manufactured Homes	6%* + MI LLPA	12%* + MI LLPA	16%* + MI LLPA	18%* + MI LLPA
	12%^	25%^	30%^	35%^
HomeReady™ mortgage, fixed-rate, term ≤ 20 years	6%	12%	16%* + MI LLPA	18%* + MI LLPA
			25%^	25%^
HomeReady™ mortgage, fixed-rate, term > 20 years; ARMs; and Manufactured Homes	6%* + MI LLPA	12%* + MI LLPA	16%* + MI LLPA	18%* + MI LLPA
	12%^	25%^	25%^	25%^

* Minimum coverage options.
^ Standard coverage options (standard coverage options do not carry additional LLPAs).

Delivering to Fannie Mae as a direct seller or seller/servicer

In order for banks to deliver loans directly to Fannie Mae, they must become approved sellers or seller/servicers. Fannie Mae approved sellers and seller/servicers are able to deliver a wide range of single-family mortgage products, including purchases and refinances on one- to four-unit properties, and refinances through the Home Affordable Refinance Program (HARP). Both fixed-rate and adjustable-rate products are available. When delivering loans to Fannie Mae, lenders must provide (directly or indirectly through a service provider) certain representations and warranties (reps and warrants).

Approved sellers or seller/servicers are also provided with training, technical support, and business development support. Once approved, lenders are assigned a Fannie Mae Customer Account Manager (CAM) to help them navigate Fannie Mae's benefits, systems, and requirements.

Approval process to deliver as a Fannie Mae direct seller or seller/servicer

Lenders can be approved through Fannie Mae as a seller/servicer or as a direct seller only. Fannie Mae seller/servicers either service loans directly or contract with a Fannie Mae approved subservicer. If approved as a seller only, servicing rights must be transferred to a Fannie Mae approved servicer.

The seller/servicer approval process is estimated to take between four and 14 months from the time of application through final approval. Banks interested in becoming a Fannie Mae approved seller or seller/servicer must meet minimum financial standards including a minimum net worth of $2.5 million plus 25 basis points of unpaid principal balance for total one- to four-unit residential mortgage loans serviced. Operational standards, related quality control, and servicing requirements apply as well.

Delivering to Fannie Mae through FHLBank MPF Xtra

The FHLBanks are 11 government-sponsored regional banks that offer a range of funding options for member financial institutions across the country.

The Federal Home Loan Bank of Chicago launched the Mortgage Partnership Finance (MPF) Program in 1997 to provide another secondary market outlet for its members to sell fixed-rate mortgage loans. Today, nine of the 11 FHLBanks purchase conventional and government loans through the MPF program. The majority of financial institutions participating in this program

[9] The Housing and Economic Recovery Act (HERA) established a formula used by the FHFA to establish annual loan limits.

are small banks or thrifts with assets of less than $400 million. While the basic MPF product is a portfolio product, certain FHLBanks offer access to Fannie Mae through their MPF Xtra product.

MPF Xtra is offered to members of the Federal Home Loan Banks of Atlanta, Boston, Chicago, Dallas, Des Moines, Pittsburgh, San Francisco, and Topeka. Under MPF Xtra, the FHLBanks operate as a pass-through for member institutions to sell loans to Fannie Mae without retaining credit risk.

Members of the eight FHLBanks offering MPF Xtra can pursue approval to sell mortgages through the MPF program as a Participating Financial Institution (PFI). Through MPF Xtra, FHLBank PFIs can take advantage of the benefits of secondary market liquidity while avoiding the financial and operational requirements associated with becoming a direct Fannie Mae seller/servicer.

PFIs also receive support and guidance from their FHLBank MPF provider that helps ensure the loan manufacturing and data quality necessary for secondary market mortgage sales. The administrator of the MPF program and Fannie Mae's seller/servicer, the Federal Home Loan Bank of Chicago, assumes the reps and warrants to Fannie Mae on loans sold through MPF Xtra. However, PFIs are required to retain the customary reps and warrants required by the FHLBanks on loans sold through MPF Xtra.

The MPF Xtra product has no minimum collateral or risk-based capital requirements, and all PFIs receive access to most standard Fannie Mae mortgage products. PFIs are provided access to Fannie Mae's Desktop Underwriter® (DU) risk assessment platform and can use either automated or manual underwriting processes. Second mortgages cannot be used in conjunction with the MPF Xtra product.

Delivering to Fannie Mae through ICBA's Correspondent Lending Program

ICBA's Correspondent Lending Program offers member institutions access to various government-sponsored enterprise (GSE) and government loan program product options. For a fee, ICBA member banks can originate Fannie Mae loan products and deliver them to ICBA, which aggregates the loans, allowing the bank to take advantage of secondary market liquidity and GSE product offerings, while avoiding the operational requirements of becoming a direct Fannie Mae seller/servicer.

Delivering to Fannie Mae through other third parties

Smaller lenders often turn to investors or aggregators to help them carry out underwriting, funding, and/or secondary market sales functions. Correspondent lenders typically fund loans in their own names and then sell them to investors, who in turn sell the loans into the secondary market. In some cases, the correspondent lenders handle the underwriting in-house. In other cases, the investor acts as the underwriter. Smaller lenders that are interested in originating loans but do not have the internal capacity to either underwrite or fund the loans can also work with investors to carry out the origination function while looking to the investor to underwrite and fund the loans in the name of the investor.

Thus, lenders can work with sponsoring Fannie Mae approved seller/servicers to originate Fannie Mae loan products. Originating loans for or selling loans to a Fannie Mae approved lender or aggregator can be useful to banks that do not meet minimum standards and/or do not have the internal capacity to become Fannie Mae approved.

Fannie Mae offers the Desktop Originator®, a portal system that provides product guidelines and preliminary automated underwriting (Desktop Underwriter®), to lenders working with investors. However, many aggregators and/or investors administer their own underwriting guidelines or overlays, which may be more restrictive than standard Fannie Mae program requirements. Final underwriting decisions, standards for delivery, and fees for participation are set by each investor.

SYSTEM REQUIREMENTS AND QUALITY CONTROL

Use of Desktop Underwriter®, Fannie Mae's automated credit risk assessment platform, is required for all Fannie Mae sellers, including seller/servicers. DU provides an assessment of a loan's eligibility for sale and delivery to Fannie Mae. Lenders can access DU through an interface on FannieMae.com or through an integrated third-party or proprietary loan origination system. Fannie Mae uses trended data in its credit risk assessment for loans submitted through Desktop Underwriter®. Trended credit data provides expanded information on a borrower's revolving account credit history including whether the borrower pays off the balance each month or makes the minimum payment due, and whether the borrower exceeds the credit limit. There is no charge for Desktop Underwriter®. Fannie Mae sellers are also required to have a quality control program in place that includes pre-funding and post-funding quality control reviews, covers the full scope of the mortgage origination business of the bank, and includes an active role by senior management in the effective resolution of gaps discovered in the origination process.

RESOURCES

Path to Approval Toolkit: Reference guide for prospective Fannie Mae seller/servicers.
https://www.fanniemae.com/content/tool/prospective-seller-servicer-reference-guide.pdf

Fannie Mae Prospective Seller/Servicer road map: One-page summary of approval process.
https://www.fanniemae.com/content/fact_sheet/prospective-seller-servicer-roadmap.pdf

Fannie Mae's Housing Finance Institute: Training opportunities including virtual classrooms, webinars, on-demand E-Learning courses, and job aids.
https://www.fanniemae.com/singlefamily/training

Fannie Mae Selling Guide: Rules and regulations covering all aspects of selling loans to Fannie Mae including lender approval, loan origination, loan delivery, and quality control.
https://www.fanniemae.com/content/guide/selling/index.html

Fannie Mae Servicing Guide: Rules and regulations covering all aspects of servicing loans sold to Fannie Mae including payment processing, escrow management, borrower repayment solutions, and bankruptcies and foreclosures.
https://www.fanniemae.com/content/guide/servicing/index.html

Fannie Mae Desktop Underwriter® (trended data)
https://www.fanniemae.com/content/fact_sheet/desktop-underwriter-trended-data.pdf

ICBA Correspondent Lending Program: Program description and available products list.
http://www.icbams.com

List of approved lenders: List of Fannie Mae approved aggregators.
https://www.fanniemae.com/content/list/desktop-originator-sponsoring-lenders.html