

ARM Loans, Fannie Mae Rental, Freddie Gift Funds and Frozen Credit

Purpose

This announcement includes the following topics:

- ✓ Retirement of LIBOR ARMs
 - ✓ Fannie Mae Rental Housing Payment - update
 - ✓ Fannie Mae Rental income for Subject Property - update
 - ✓ Freddie Mac Gift Funds - clarification
 - ✓ Frozen Credit
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Retirement of LIBOR ARMs

Fannie Mae and Freddie Mac have both announced they will be transitioning away from the LIBOR index to the SOFR index for adjustable-rate mortgages (ARM). As part of this transition, Fannie Mae and Freddie Mac are now requiring lenders to use updated ARM notes and riders for all loans closed on or after June 1, 2020. The new ARM notes and riders contain fallback language which provides clear direction on the selection of a replacement index in the event an index is no longer available.

FSM is currently reviewing all information and will provide additional communication regarding the transition from LIBOR to SOFR prior to the effective date.

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Fannie Mae Rental Housing Payment - update

Per Fannie Mae [Selling Guide Announcement SEL-2020-01](#), Effective with new loan casefiles submitted to DU *on or after June 2, 2020*, for all second home, investment property or non-occupant co-borrower transactions, when a borrower rents a primary residence, the primary rental housing payment must be documented with one of the following:

- ✓ Six months canceled checks or equivalent payment source; or
- ✓ Six months bank statements reflecting a clear and consistent payment to an organization or individual; or
- ✓ Direct verification of rent from a management company or individual landlord; or
- ✓ A copy of a current, fully executed lease agreement and two months canceled checks (or equivalent payment source) supporting the rental payment amount.

Borrowers currently living rent-free will be required to provide a signed letter from a third party confirming rent-free status.

For complete details on documenting the housing payment, see Fannie Mae's Selling Guide [Section B3-6-05](#).

Note: DU will include a new message in a future release to remind lenders that the rental housing payment must be verified and documented.

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Continued

**Fannie Mae
Rental Income
for Subject
Property -
update**

Effective with new loan casefiles submitted *on or after April 1, 2020*, Fannie Mae will be extending the policy changes announced in [SEL-2019-08](#) for determining the amount of rental income from the subject property that can be used for qualifying purposes, to include refinance transactions in addition to purchases.

Excerpt from SEL-2019-08:

To determine the amount of rental income from the subject property that can be used for qualifying purposes when the borrower is purchasing a two- to four-unit principal residence or one- to four-unit investment property, the lender must consider the following:

If the borrower...	Then for qualifying purposes...
<ul style="list-style-type: none"> currently owns a principal residence (or has a current housing expense), and has at least a one-year history of receiving rental income or documented property management experience 	<p>there is no restriction on the amount of rental income that can be used.</p>
<ul style="list-style-type: none"> currently owns a principal residence (or has a current housing expense), and has less than one-year history of receiving rental income or documented property management experience 	<ul style="list-style-type: none"> for a principal residence, rental income in an amount not exceeding the PITIA of the subject property can be added to the borrower's gross income, or for an investment property, rental income can only be used to offset the PITIA of the subject property.
<ul style="list-style-type: none"> does not own a principal residence, and does not have a current housing expense 	<p>rental income from the subject property cannot be used.</p>

Note: This policy does not apply to HomeReady loans with rental income from an accessory unit.

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Freddie Mac Gift Funds - clarification Effective for Mortgages with Settlement Dates *on and after May 5, 2020*, Per Freddie Mac [Bulletin 2020-1](#), funds transferred via a third-party money transfer application (i.e. PayPal, Zelle, Venmo) are acceptable when documentation evidences that the funds were transferred, using the application, directly from the donor's bank account to the Borrower's bank account or to the settlement/closing agent.

Frozen Credit *Effective immediately*, for Conforming loans, FSM is aligning with Fannie Mae and Freddie Mac and allowing 1 frozen repository when 2 repositories are available for Borrower(s) with traditional credit:

Frozen Credit Requirements:

If the Borrower's credit information is frozen at one of the credit repositories for borrowers who have traditional credit, the credit report is still acceptable when:

- ✓ The credit data is available from two repositories;
 - ✓ A credit score is obtained from at least one of the two repositories;
 - ✓ A three in-file merged credit report was ordered from the three credit repositories;
 - ✓ There is a DU/DO Approve/Eligible or LPA Accept recommendation
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