

Announcement 04-07

November 8, 2004

Amends these Guides: Selling and Servicing

Mortgages Secured by Manufactured Homes, Fannie Mae Purchase of Indiana “High Cost Home Mortgage Loans,” Quality Assurance-Documentation Requirements, Southwestern Regional Location-Change of Physical Address, Lenders’ Analysis of the Contract For Sale and Sale History of the Subject Property, Property Flipping, Comment Period for Revised Test Appraisal Forms, Servicing Transfers, Lender-Placed Property Insurance

This Announcement includes several Selling and Servicing Guide topics intended to clarify or amend our current requirements. The topics addressed in this Announcement are:

- additional mortgage eligibility modifications to our requirements for loans secured by manufactured homes,
- Indiana’s laws concerning “high cost home mortgage loans,”
- documentation requirements for our quality assurance process,
- change of address for Fannie Mae’s Southwestern Regional Location,
- lenders’ analysis of the contract for sale and sale history of the subject property,
- revision of our policy in response to unacceptable property flipping schemes,
- revision of test appraisal report form(s),
- requirements for servicing transfers, and
- lender-placed property insurance.

Mortgages Secured by Manufactured Homes

In Announcement 03-06, we restated and revised our requirements for mortgages secured by manufactured homes. The new requirements included modifications to our mortgage eligibility and underwriting requirements, appraisal requirements, pricing adjustments, and servicing requirements. When we modified our requirements last year, we committed to look for ways to further serve this important housing sector and in particular borrowers most in need of affordable financing options for the purchase or refinance of a manufactured home.

Today, we are announcing lower down payment requirements for these mortgages. We will permit a maximum loan-to-value ratio (LTV), combined loan-to-value ratio (CLTV), or home equity combined loan-to-value ratio (HCLTV) up to and including 95% for loan terms up to and including 30-years for mortgages meeting the following criteria:

- principal residences only,
- purchase money and limited cash-out refinances, and
- mortgage insurance coverage of 35% required for LTVs of 90.01% – 95% with loan terms >20 to ≤ 30 years.

Desktop Underwriter will be updated during the first quarter of 2005 to reflect these modifications to our eligibility requirements for mortgages secured by manufactured homes. Until then, mortgage loans meeting the expanded criteria will be eligible for purchase if they receive an “Approve/Ineligible” or “Refer/Ineligible” recommendation (or for lenders participating in our Expanded Approval™ with Timely Payment Rewards® product line, an “EA-I/Ineligible” or “EA-II/Ineligible” recommendation) if the only reason for ineligibility is the LTV and loan term.

All other requirements stated in Announcement 03-06, the Selling Guide and the Servicing Guide remain in effect including eligibility, underwriting, appraisal, pricing, titling and servicing. These changes are effective for all loans ***delivered to us for whole loan purchase, MBS issuance, or Early Funding on or after December 1, 2004.***

Purchase of Indiana “High Cost Home Mortgage Loans”

Over the past few years, Fannie Mae and its lender partners have worked together to expand affordable homeownership, promote responsible lending practices, and combat predatory lending. Among those efforts are our standards to guard against the purchase of home mortgage loans with predatory features that were announced in Lender Letter 03-00, which includes a prohibition against the purchase of “high-cost” mortgage loans under the federal Home Ownership and Equity Protection Act (HOEPA). In that same vein, in Announcements 02-12, 03-02, 03-07, 03-12, and 04-06, we announced that we would not purchase any mortgage loans that qualify as “high-cost home loans” or “high-risk home loans” under the Georgia Fair Lending Act, New York Banking Law §6-1, Kentucky statute

§360.001, Arkansas Home Loan Protection Act, New Jersey Home Ownership Security Act of 2002, New Mexico Home Loan Protection Act, Illinois High-Risk Home Loan Act, and Massachusetts Predatory Home Loan Practices Act.

The Indiana Home Loan Practices Act (Ind. Code Ann. §§24-9-1 through 24-9-9) will become effective January 1, 2005. The Indiana law applies to owner-occupied home loans secured by property located in the State of Indiana. Effective January 1, 2005, mortgage loans may not be delivered to us if they qualify as “high cost home loans” under the Indiana law.

Pursuant to our Mortgage Selling and Servicing Contract, a seller represents and warrants that each mortgage loan it delivers conforms to all applicable requirements of our Selling Guide, which in the case of mortgage loans secured by Indiana property includes the prohibition on delivery of “high cost home loans” (as defined by the laws of Indiana), which is added to our Selling Guide by this Announcement. We expect a lender that sells us any loan secured by an Indiana property to have in place a process based upon the unique requirements of the Indiana law to ensure that it does not inadvertently deliver “high cost home loans” to us.

In addition, Fannie Mae will conduct quality assurance reviews of mortgage loans secured by properties in Indiana and will require repurchase of any determined to be “high cost home loans.”

Quality Assurance – Documentation Requirements

Selling Guide Part I: Chapter 3, Exhibit 1, Post-Purchase Review Documentation-Higher-Risk Manually Underwritten Mortgages; and Servicing Guide Part VIII, Chapter 3, Exhibit 1, Underwriting Review File. Fannie Mae has revised its document delivery guidelines for loans selected for quality assurance review to add certain documents needed to complete our screening for compliance with our anti-predatory lending requirements, and, in particular, the state-specific “high cost” and “high risk” provisions stated in Announcements 02-12, 03-02, 03-07, 03-12, and 04-06. The delivery of these documents with the mortgage loan file will reduce the number of individual document requests we make of lenders as we perform our quality assurance reviews.

Specifically, the following additional documentation is required:

- final Truth-in-Lending disclosures, including Itemization of Amount Financed (if an itemization was prepared);
- Discount Point Worksheet, if applicable;
- Conventional Prepayment Penalty Worksheet, if applicable;
- RESPA Affiliated Business Disclosure, if applicable;
- Borrower’s Choice of Attorney Form, if applicable;
- Desktop Underwriter® Batch Findings Reports, if applicable;

The new Selling and Servicing Guide Exhibits are attached and revise the lenders’ loan

delivery documentation requirements. The revised Exhibits are required for loans delivered on or after December 1, 2004.

Fannie Mae Southwestern Regional Location-Change of Physical Address

Selling Guide Foreword: Exhibit 1, List of Various Contact Points; Part I; Section 301.03, Fannie Mae's Underwriting and Performance Reviews; and Servicing Guide: Foreword; Exhibit 1, List of Various Contact Points; Part I; Section 301.02, Fannie Mae's Quality Assurance Reviews; Part V: Section 211, Assignment of Mortgage to HUD; Part VIII: Section 301.01, Underwriting Review File.

Effective November 15, 2004, the address of the Southwestern Regional Location in Dallas, which includes the National Underwriting Center and the National Property Disposition Center, will become:

Fannie Mae
International Plaza II
14221 Dallas Parkway
Suite 1000
Dallas, TX 75254-2916

Please note: All post office box addresses and all phone numbers will remain the same.

Selling Guide

Lenders' Analysis of the Contract For Sale and Sale History of the Subject Property

Part XI: Property and Appraisal Guidelines, Chapter 4, Section 406, Sales Comparison Approach to Value. We are taking this opportunity to clarify our expectations of lenders in their review of appraisal reports. When a new appraisal is required for a mortgage loan that a lender delivers to Fannie Mae, we expect lenders to perform an underwriting analysis of the following:

- current contract for sale for the subject property for purchase money transactions,
- current offering or listing for sale for the subject property for both purchase and refinance transactions (if applicable),
- current ownership of the subject property for both purchase and refinance transactions, and
- sale (or transfer) history of the subject property, and comparable sales for both purchase and refinance transactions.

We require the lender's appraiser to perform the initial analysis based on data researched and analyzed as part of the appraisal process. Our appraisal report forms and the Uniform Standards of Professional Appraisal Practice currently require the appraiser to analyze and report on any current contract for sale, offering or listing for sale, and recent prior sales (or transfers) of the subject property.

It is Fannie Mae's expectation that appraisers analyze and report on the current contract for sale; offering or listing for sale; and, when the information is reasonably available, the sale (or transfer) history of the subject property, and of comparable sales for both purchase and refinance transactions. We expect appraisers to have the necessary and appropriate data sources for the area in which the property is located and to have the appropriate knowledge and experience to appraise properties in the market areas where they accept assignments. If the appraiser cannot obtain the information needed to perform the required analysis and/or does not have the knowledge and experience to appraise properties in the subject market area, he or she should not accept those appraisal assignments.

Property Flipping

Part XI: Property and Appraisal Guidelines, Chapter 4, Section 406, Sales Comparison Approach to Value. Based on internal analysis and lender feedback, we are revising our policy to more specifically address the issue of property flipping. Property flipping generally refers to the process of purchasing existing properties with the intention of immediately reselling the properties for a profit. Individuals that flip properties employ a variety of different approaches to reach this objective. The primary scenario in property flipping is to identify a property that can be acquired at a discounted price then resell the property for a

profit. Some individuals hold title for months or just days, while some may only assign or sell their interest in a contract to acquire the property to a third party.

Property flipping is not illegal per se; however, when an immediate resale is attended by acts of fraud or misrepresentation, including but not limited to, appraisals with inflated property values and other misleading or fraudulent documentation, it can result in a predatory transaction. The unfortunate victim of such a predatory property flipping scheme is an uninformed homebuyer who may have paid too much for a property. This practice is problematic for Fannie Mae, our customers, and homeowners and their neighborhoods. Below we outline

- Fannie Mae’s research on and experience with unacceptable property flipping schemes.
- Lenders’ responsibility to review the appraiser’s analysis of the contract for sale and the sale (or transfer) history of the subject property.
- Policy modifications specifically addressing property flipping which will be mandatory for loan applications taken on or after May 1, 2005.

Unacceptable Property Flipping Schemes

Property flipping generally starts with the purchase of a distressed property, which means the seller is motivated to sell at a discounted price. We have identified unacceptable property flipping schemes that involve various combinations of transactions and result in a sale of a recently acquired, distressed property for significant profit based on a misleading or fraudulent appraisal with an inflated property value. Appraisal reports used in these property flipping schemes generally contain an inadequate analysis of (i.) the offering or listing for sale for the subject property, (ii.) the contract for sale for the subject property, (iii.) the sale (or transfer) history of the subject property, and comparable sales.

Our experience and research indicate that

- Property flipping schemes generally rely on a sequence of transactions occurring in quick succession.
- Predatory property flipping schemes generally involve the assignment (or sale) of a contract for sale. They also tend to employ “back-to-back,” “simultaneous,” or “double” transaction closings (or double escrows in some states).
- The likelihood of fraud or misrepresentation increases when the lender is not able to identify that the property seller in a purchase money transaction (or the borrower in a refinance transaction) is the owner of the subject property based on publicly available information.
- Any meaningful analysis of the sale (or transfer) history of the subject property should start with the identification of the current owner of the property based on publicly available information.
- Lenders and their appraisers must understand the quality of, and timeliness or effective

date of, their data sources for the sale (or transfer) history of the subject property, and comparable sales in order to identify time gaps or lags.

We have identified a variety of predatory property flipping schemes that involve various combinations of techniques and transactions. The examples below are simple illustrations of two techniques. The first demonstrates the use of an assignment of a contract for sale, a fraudulent or misleading appraisal report, and “back-to-back” closings. The second involves the use of a purchase and a cash-out refinance transaction supported by misleading or fraudulent appraisals.

Example 1:

1. Party A executes a written agreement with property owner (Party B) to purchase a property.
2. Party A executes a written agreement to assign (or sell) his or her interest in the contract for sale to Party C.
3. Party C executes a written agreement to sell the property to an unsophisticated buyer (Party D) at an inflated price.
4. Party C helps to arrange the purchase money financing for Party D with a loan originator who knowingly assists with obtaining a misleading or fraudulent appraisal with an inflated property value and uses other misleading or fraudulent documentation.
5. The closing agent closes the transactions one after the other or “back-to-back.”
6. The closing agent records the deeds (from property owner Party B to Party C, and then from Party C to Party D) one after the other at the land records office.

Example 2:

1. Party A purchases a distressed property.
2. Party A executes a written agreement to sell the property to Party B.
3. Party B executes a written agreement to assign (or sell) his or her interest in the contract for sale to an unsophisticated buyer (Party C) at an inflated price.
4. Party B helps to arrange purchase money financing as well as cash-out refinance financing for Party C with a loan originator who knowingly assists with obtaining misleading or fraudulent appraisals with inflated property values and uses other misleading or fraudulent documentation.
5. The closing agent closes the transactions one after the other or “back-to-back” with the cash-out refinance transaction as the last transaction in the series.
6. The closing agent records the deed from property owner Party A to Party C at the land records office.

Policy Modification

Based on internal analysis and lender feedback, we are revising our underwriting policy. This policy modification is not designed or intended to affect the legitimate business practice of buying real estate at a wholesale or discounted price and re-selling it for the property’s market value. The implementation of our revised underwriting policy should help homebuyers and lenders from becoming victims of predatory property flipping schemes.

Although we encourage lenders to implement this change to our policy as soon as possible, this revised underwriting policy is mandatory for loan applications taken on or after May 1, 2005.

We believe the likelihood of fraud or misrepresentation increases when the lender is not able to confirm that the property seller in a purchase money transaction (or the borrower in a refinance transaction) is the owner of the subject property based on publicly available information. Therefore, we are modifying our policy to require the lender to confirm and document in the mortgage loan file that the property seller in a purchase money transaction (or the borrower in a refinance transaction) is the owner of the subject property when a new appraisal is required. Examples of acceptable documentation include, but are not limited to, the appraiser's analysis and conclusions in the appraisal report, a copy of a recorded deed or mortgage, a recent property tax bill or tax assessment notice, a title report, a title commitment or binder, or a property sale history report. This documentation is especially important for transactions involving an assignment (or sale) of a contract for sale and/or "back-to-back," "simultaneous," or "double" transaction closings (or double escrows) to support the property acquisition, financing, and closing.

As stated above, when a new appraisal is required, we expect the lender to perform an underwriting analysis of the current contract for sale for the subject property (for purchase money transactions), the current offering or listing for sale for the subject property (for both purchase and refinance transactions, if applicable), the current ownership of the subject property (for both purchase and refinance transactions), and the sale (or transfer) history of the subject property, and comparable sales (for both purchase and refinance transactions). As part of the loan origination process, it is critical for the lender to analyze and review the sale(s) of the subject property and the sale price trend in relation to the appraiser's opinion of value to confirm that they are reasonable and representative of the market.

We believe that confirming and documenting the current owner of the property based on publicly available information as part of the loan origination process will help to ensure a more meaningful analysis of the sale (or transfer) history of the subject property. This policy modification will ensure that lenders and their appraisers understand the quality and timeliness of their data sources, identify time gaps in, and assess the accuracy of, their data sources.

Comment Period for Revised Test Appraisal Report Forms

Part XI: Property and Appraisal Guidelines, Chapter 2, Appraisal (or Property Inspection) Documentation. In Lender Announcements 04-02, 04-03 and 04-04, we released a total of ten test appraisal and appraisal field review report forms for a comment period that ended on October 1, 2004. We would like to thank the many customers, appraisers, and organizations that took the time to share their views with us, especially the Appraisal Institute for significant input on how to improve the quality of the original test forms. As a result of that feedback, we have revised the test forms. Today we are releasing the following 11 revised versions of the test forms for an additional short comment period as the next stage of this process:

- ***Uniform Residential Appraisal Report*** (Form 1004) for one-unit appraisals (including individual units in PUD projects) based on an interior and exterior property inspection;
- ***Exterior-Only Inspection Residential Appraisal Report*** (Form 2055) for one-unit appraisals (including individual units in PUD projects) based on an exterior-only property inspection;
- ***Manufactured Home Appraisal Report*** (Form 1004C) for one-unit manufactured home appraisals based on an interior and exterior property inspection;
- ***Individual Condominium Unit Appraisal Report*** (Form 1073) for an appraisal of an individual condominium unit based on an interior and exterior property inspection;
- ***Exterior-Only Inspection Individual Condominium Unit Appraisal Report*** (Form 1075) for an appraisal of an individual condominium unit based on an exterior-only property inspection;
- ***Individual Cooperative Interest Appraisal Report*** (Form 2090) for an appraisal of an individual cooperative unit based on an interior and exterior property inspection;
- ***Exterior-Only Inspection Individual Cooperative Interest Appraisal Report*** (Form 2095) for an appraisal of an individual cooperative unit based on an exterior-only property inspection;
- ***Small Residential Income Property Appraisal Report*** (Form 1025) for appraisals of two- to four-unit properties based on an interior and exterior property inspection;
- ***Appraisal Update and/or Completion Report*** (Form 1004D) for use with all one- to four-unit appraisal reports;
- ***One-Unit Residential Appraisal Field Review Report*** (Form 2000) for appraisal field reviews for one-unit appraisal reports; and
- ***Two- to Four-Unit Residential Appraisal Field Review Report*** (Form 2000A) for appraisal field reviews for two- to four-unit appraisal reports.

The revised test forms communicate our expectations for a high-quality appraisal, strengthen the appraiser's accountability for the quality of the appraisal, and help ensure the appraiser's compliance with our requirements and those of the Uniform Standards of Professional Appraisal Practice. In addition, the revised test forms feature:

- expanded areas for comments throughout the report forms,
- optional cost and income approaches to value on most of the report forms,
- one-year sale (or transfer) history requirement for comparable sales,
- expanded area to report the appraiser's analysis of the contract for sale,
- separate appraisal report forms for units in condominium projects,
- expanded sales comparison analysis adjustment grids,
- clarification of the responsibility of the supervisory appraiser, and
- definitions, statement of assumptions and limiting conditions, and appraiser's certification as part of each report form.

You may download a copy of each of these test forms by accessing this Announcement under the “Highlights” section on the home page of www.efanniemae.com. Comments can be submitted to us (by E-mail message addressed to test_appraisal_forms@fanniemae.com or by regular mail addressed to Fannie Mae, Test Appraisal Forms, 3900 Wisconsin Avenue, NW, Mail Stop 2H-4S-08, Washington, DC 20016) no later than ***December 15, 2004***.

All of our standard applicable exhibits that are used to support an appraisal based upon the particular property inspection type are also required when using these test forms. Lenders and appraisers may continue to use the original test forms or the revised versions of the test forms until June 1, 2005 to satisfy Fannie Mae’s appraisal requirements.

Servicing Guide

As part of our ongoing efforts to promote responsible lending practices, which efforts were first announced in Lender Letter 03-00 issued in April 2000, we are making policy changes relating to servicing transfers and lender-placed insurance (also called “force-placed” insurance). These changes are meant to clarify and amend our current requirements. We appreciate the input many of our servicers have provided us regarding these changes and we welcome and encourage more discussion about expanding responsible mortgage loan servicing practices from our servicers and others. We will continue to make appropriate adjustments to our policies, as necessary.

Servicing Transfers

Part I: Lender Relationships: Chapter 2, Contractual Relationships. Servicers must have in place appropriate controls and adequate procedures relating to the boarding of new loans (subsequent to either origination or acquisition of servicing pursuant to a servicing transfer) to avoid any delayed application of borrower payments of principal, interest, taxes, or insurance (when applicable). In particular, servicing errors and disputes may occur as a result of servicing transfers. Thus, servicers should review our guidelines contained in Section 205.05, Notifying Third Parties, and Section 205.11, Transitional Responsibilities, relating to processing transfers of servicing in general, compliance with applicable law (including RESPA), and the transferor and transferee servicers’ obligations in particular to notify third parties of the servicing transfer and to ensure that the transition does not adversely affect borrowers.

In general, the servicer must incorporate flexibility into its default and other servicing procedures to take into consideration problems that may be attributable to the logistics of servicing transfers. In addition, the transferee servicer should ensure that it understands borrower account histories (including the amount and nature of all servicing advances and fees assessed to the borrower) as of the effective date of the transfer, that it reviews its subsequent collection of funds from borrowers to ensure accurate accounting for recovery of advances charged to the borrower, and that it honors any forbearance agreements or other arrangements made with borrowers by the previous servicer (or provides reasonable notice of any change in these arrangements – if contractually permitted). In all instances, fees and charges improperly assessed to a borrower must be promptly refunded or credited to the borrower’s account.

Servicers will have until February 1, 2005 to implement these servicing requirements, although they are encouraged to do so as expeditiously as possible.

Lender-Placed Property Insurance

Part II: Mortgage and Property Insurance, Section 201, Payment of Insurance Premiums and Chapter 3, Section 301, Payment of Flood Insurance Premiums. Fannie Mae requires servicers to ensure that hazard insurance (including flood insurance), under the terms specified in our Selling and Servicing Guides, is in place at all times. If the servicer is unable

to obtain evidence of acceptable hazard insurance for a property, the servicer should obtain alternative insurance coverage (so-called “force-placed” insurance or “lender-placed” insurance) to protect our interests. In this instance, there are several guidelines that servicers should apply, subject to the provisions of and in compliance with applicable law and the mortgage documents:

- Lender-placed insurance coverage should only be issued after the servicer makes attempts to contact the borrower to obtain evidence of insurance. The servicer may contact the borrower’s insurance agent but must attempt to contact the borrower if it fails to obtain evidence of insurance from the agent. At least one borrower communication should be by letter. We expect the servicer to have (or provide for) adequate resources and facilities for receiving and processing evidence of insurance that is submitted by borrowers. Typically, the borrower should have a period of at least 60 days to provide evidence of coverage before a charge for lender-placement is assessed to the borrower. It may be appropriate for this period to be extended if an apparent lapse in insurance coverage coincides with a servicing transfer. However, in all cases the servicer is responsible for ensuring that – whether through borrower-placed or lender-placed hazard insurance – there is no lapse in coverage.

The contacts with the borrower should include information explaining the ramifications of the borrower’s failure to obtain coverage, including: (i) the potential that lender-placed coverage may be substantially more expensive (and that the borrower nevertheless will be required to pay for such coverage or risk being in default under the terms of the mortgage documents), (ii) that any lender-placed coverage may not cover the borrower as an insured, the borrower’s equity, or provide the same scope of coverage as the borrower’s normal homeowner’s insurance (for instance, no coverage for personal effects or premises liability), and (iii) that the servicer or one of its affiliates may be paid a commission for its placement of the replacement insurance coverage, if applicable.

- Any lender-placed coverage must be provided in compliance with our Servicing Guide insurance requirements. We recognize that lender-placed insurance premiums typically are paid on an annual basis in advance so that a borrower would be assessed a year’s lump-sum premium. If the servicer becomes aware that the borrower may not be able to fulfill that lump-sum payment obligation, the servicer should advance the payments and establish a schedule for the pro rata recovery of the premium from the borrower over the succeeding 12 months, or longer if the servicer so elects. The servicer also should provide for the collection of the premium installment for the next renewal period based on the required rescission of the escrow account waiver referred to in Announcement 04-06 under Escrow Administration. If, however, it appears that the borrower will not be able to meet even this obligation, other loss mitigation steps should be pursued as stated in the Servicing Guide to arrange for the collection of outstanding amounts owed.
- In the event the borrower provides evidence of acceptable insurance coverage, the total amount of any premiums for lender-placed insurance attributable to the period of time after the effective date of the borrower-placed coverage (along with any late charges assessed due to the non-payment of any lender-placed insurance premium)

must be refunded or credited to the borrower within a reasonable timeframe.

Servicers will have until February 1, 2005 to implement these servicing requirements, although they are encouraged to do so as expeditiously as possible.

Lenders should contact their Customer Account Manager if they have any questions about this Announcement.

Pamela S. Johnson
Senior Vice President

Attachment(s)

Selling**Exhibit 1 Post-Purchase Review Documentation—Higher-Risk Manually Underwritten Mortgages (10/01/04)**

Our post-purchase underwriting performance review of a manually underwritten higher-risk mortgage encompasses a complete review of the credit, legal, and property documents. We will obtain the borrowers' credit reports and credit scores to help us evaluate the lender's assessment of the relative strengths and weaknesses of the borrowers' credit profiles. We also may reverify the employment and deposits and order a new appraisal on the property.

The file the lender submits for a post-purchase review of a manually underwritten higher-risk mortgage should include all of the documentation that is needed to support the underwriting decision, in addition to copies of the documents specified below (when applicable). When an electronic signature is used in connection with the mortgage transaction, the underwriting file that is submitted to us must also include the name of the person (and related entity, if applicable) who signed each electronic record, the date of the signature, and the method by which the document was signed, as well as any associated evidence and attribution information that can be used to verify the electronic signature. If the lender obtained a borrower's consent for any electronic signature, that consent must also be part of the submitted file. The evidence and attribution information must be sufficient to enable us to conduct a thorough post-purchase review. For example, the evidence of the borrower's signature with respect to a verification of employment must give us the ability to request (and receive) a reverification of the information from the borrower's employer.

When we require the lender to submit paper documents in connection with a manually underwritten mortgage, the following documents should be secured inside a manila folder, with the credit and property documents on the right side and the legal documents on the left side, packaged in the order in which they are listed below:

Credit Documents

1. *Uniform Underwriting and Transmittal Summary* (Form 1008);
2. *Uniform Residential Loan Application* (Form 1003 or 1003(S))—copies of both the original application and the final typed application that the borrower signed;
3. Residential mortgage credit report, nontraditional mortgage credit report, or any "in-file" or automated "merged" reports that were used;
4. *Request for Verification of Employment* (Form 1005 or 1005(S)), signed federal income tax returns, or any other applicable alternative documentation we accept—such as W-2 forms, IRS Forms 1099, paystubs, profit and loss statements, *Cash Flow Analysis* (Form 1084), etc.;
5. *Request for Verification of Deposit* (Form 1006 or 1006(S)) or any applicable alternative documentation we accept for verifying funds for closing or cash reserves (including bank statements, income account statements, etc.);
6. Miscellaneous credit documents—mortgage payment history for previous mortgage; gift letter; source of funds letter; proof of sale of previous residence; proof of debt

Exhibit 1 Post-Purchase Review Documentation—Higher-Risk Manually Underwritten Mortgages (cont...)

satisfaction; release from bankruptcy; divorce decree; *Operating Income Statement* (Form 216), for investment properties; evidence of receipt of rental payments; copy of collection history for previous mortgage (including notes); etc.

Purchase Transaction Documents

1. Agreement of Sale, Sales Contract, Purchase and Sales Agreement, or an equivalent document;
2. Escrow Instructions, if applicable;
3. Final Truth-in-Lending disclosures, including Itemization of Amount Financed (if an itemization was prepared); and
4. HUD-1 uniform settlement statement.

Property Documents

1. Residential appraisal report (Form 1004, 1025, 1073, 1075, or 2055, as applicable), with all exhibits. Include the Certification of Completion and Recertification of Value, if applicable;
2. Attachments to appraisal report—location map, building sketch, and photographs;
3. Survey, if required; and
4. Any other pertinent property information, including any well and septic certifications and maintenance agreements, evidence of energy efficiency, etc.

Legal Documents

1. Note;
2. Recorded Mortgage or Deed of Trust;
3. Riders or Addenda to Note and Mortgage or Deed of Trust;
4. Buydown Agreement, if applicable;
5. Assumption Agreement, if applicable;
6. Assignment of Mortgage to Fannie Mae, if applicable;
7. Previous intervening assignment(s), if applicable;
8. Copy of Leasehold Agreement, if applicable;
9. *Final Project Acceptance*, for condominium or PUD unit mortgages or for cooperative share loans, if Fannie Mae reviewed the project; and
10. Cooperative legal documents, for cooperative share loans.

Selling

Exhibit 1 Post-Purchase Review Documentation—Higher-Risk Manually Underwritten Mortgages (cont...)**Insurance Documents**

1. Mortgage insurance certificate, for an insured conventional mortgage; FHA mortgage insurance certificate for an FHA-insured mortgage; VA loan guaranty certificate for a VA-guaranteed mortgage; loan note guarantee for an RHS-guaranteed mortgage; and an Indian loan guarantee certificate for a HUD-guaranteed Chapter 184 mortgage;
2. Title insurance policy, with all endorsements, and a copy of the original commitment for title insurance, title opinion, or abstract of title;
3. Copy of current hazard insurance policy;
4. Copy of the life-of-loan flood certificate and, if applicable, the current flood insurance policy; and
5. Any repurchase or collateral agreement executed in lieu of conventional mortgage insurance.

Miscellaneous Documents

1. Home Buyer Education Certificate or Worksheet, for a community lending mortgage;
2. Single Loan Waiver Approval, if applicable; and
3. Copy of *Loan Schedule* (Form 1068 or 1069) or *Schedule of Mortgages* (Form 2005).
4. Discount Point Worksheet, if applicable;
5. Conventional Prepayment Penalty Worksheet, if applicable;
6. RESPA Affiliated Business Disclosure, if applicable; and
7. Borrower's Choice of Attorney Form, if applicable.

Servicing

Exhibit 1 Underwriting Review File (10/01/04)

Copies of all of the following documentation generally should be included in the underwriting review file. If we are willing to accept fewer documents for a given mortgage, we will advise the servicer about which documents need to be delivered to us when we notify it that the mortgage has been selected for a post-foreclosure underwriting review.

The outside of the underwriting review file should clearly identify the case, as follows: Underwriting File for Acquired Property; Mortgage Remittance Type ("A/A," "S/A," or "S/S"); Servicing Option ("Special" or "Shared Risk"); Fannie Mae Loan Number; Servicer Loan Number; Borrower's Name; and Property Address.

A. Borrower's Underwriting Documentation

- *Uniform Underwriting and Transmittal Summary* (Form 1008);
- *Uniform Residential Loan Application* (Form 1003 or 1003(S));
- Residential mortgage credit report, nontraditional mortgage credit report, or any "in-file" or automated "merged" reports;
- *Request for Verification of Employment* (Form 1005 or 1005(S)), signed federal income tax returns, or any other applicable alternative documentation we accept;
- *Request for Verification of Deposit* (Form 1006 or 1006(S)) or any applicable alternative documentation we accept;
- *Operating Income Statement* (Form 216), for an investment property;
- *Cash Flow Analysis* (Form 1084), for a self-employed borrower;
- Gift letters or other source of funds letters;
- Mortgage payment history for previous mortgage;
- Proof of sale of previous residence;
- Proof of debt satisfaction;
- Release from bankruptcy;
- Divorce decree;

Exhibit 1 Underwriting Review File (cont ...)

- Evidence of receipt of rental payments (if applicable); and
- Any other pertinent documentation.

B. Property Underwriting Documentation

- Appraisal or property inspection report (Form 1004, 1025, 1073, 1075, 2055, 2065 or 2075 as applicable);
- Location map;
- Building sketch;
- Photographs;
- Certification of completion, if applicable;
- Recertification of value, if applicable;
- Survey (if required); and
- *Final Project Acceptance* letter, if one was issued for a conventional project

C. Purchase Settlement Documentation

- Agreement of sale, sales contract, purchase and sales agreement, or equivalent document;
- Escrow instructions, if applicable;
- HUD-1 uniform settlement statement;
- Final Truth-in-Lending disclosures, including Itemization of Amount Financed (if an itemization was prepared);
- Buydown agreement, or escrow agreement, if applicable; and
- Assumption agreement, if applicable.

D. Legal Documentation for Mortgage

- Note and any related addenda;

Servicing

Exhibit 1 Underwriting Review File (cont ...)

- Recorded mortgage or deed of trust and any related riders or addenda;
- Assignment of mortgage to Fannie Mae, if applicable;
- Previous intervening assignments, if applicable;
- Leasehold Agreement, if applicable;
- Modification or forbearance agreement, if applicable;
- All customary cooperative share loan and project documents, if the dwelling unit was in a cooperative project;
- Mortgage insurance or guaranty certificate (or a letter agreeing to cancel coverage at the borrower's request) or any repurchase or collateral agreement executed in lieu of mortgage insurance; and
- Mortgagee's title insurance policy (including all endorsements).

E. Miscellaneous Documentation:

- Discount Point Worksheet, if applicable;
- Conventional Prepayment Penalty Worksheet, if applicable;
- RESPA Affiliated Business Disclosure, if applicable; and
- Borrower's Choice of Attorney Form, if applicable.