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Ann. SEL-2013-02: Lender Incentives for Borrowers and Private Flood Insurance Policies (01/29/13)

This Announcement describes new policies that pertain to the following subjects:

- Lender Incentives for Borrowers
- Private Flood Insurance Policies

The *Selling Guide* will be updated with these policies at a later date.

Lender Incentives for Borrowers

As a result of lender inquiries, the Federal Housing Finance Administration has led joint discussions with Fannie Mae and Freddie Mac related to their policies regarding lender incentives for borrowers to refinance their mortgage loans. Based upon those discussions, Fannie Mae is announcing that lenders will be allowed to offer a refinancing incentive to encourage borrowers to refinance through DU Refi Plus™ and Refi Plus™ transactions, which borrowers use to obtain a lower payment or move to a more stable product or shorter term. Lenders will also be allowed to offer additional incentives to borrowers for all transaction types. These incentives are described below.

Pay Down of Existing Mortgage Balance for Eligible Refinance Transactions

For DU Refi Plus and Refi Plus transactions, the lender may provide an incentive to the borrower in the form of a payment to pay off a portion of the mortgage loan being refinanced provided that:

- the amount of the incentive does not exceed \$2,000,
- no repayment is required, and
- the payment is reflected on the HUD-1 Settlement Statement as a lender credit.

Because these are refinance transactions, the incentive is not considered an interested party contribution (IPC) and, as a result, is not included in the IPC limit calculation. It is also not considered a violation of Fannie Mae's restructured mortgage loan policy given that DU Refi Plus and Refi Plus loans are currently exempt from this policy. Furthermore, this incentive is not considered cash out to the borrower and it does not have to be included in the "cash back to borrower at closing" calculation.

Cash or Cash-like Incentives for all Transaction Types

The lender may provide the borrower with a cash or cash-like (e.g., a gift card) incentive that is not reflected on the HUD-1 Settlement Statement provided that:

- the amount of the incentive does not exceed \$500, and
- no repayment is required.

Because the lender is not typically a party to the sales transaction, these types of lender incentives are not considered IPCs and, as a result, are not included in the IPC limit calculation. Furthermore, these incentives are not considered cash out to the borrower and do not have to be included in the "cash back to borrower at closing" calculation.

NOTE: *Documentation of compliance with this policy will not be required at the loan level. However, the lender must establish policies and/or procedures to ensure that the loans with these types of incentives that it delivers to Fannie Mae, whether or not the loans were originated by the lender, are in compliance with this policy.*

Effective Date

Lenders may implement these new policies immediately. Lenders that have their own similar incentive policies currently in place may deliver loans with lender incentives that exceed the limits in this Announcement if the applications are dated before May 1, 2013.

Private Flood Insurance Policies

The Biggert-Waters Flood Insurance Reform Act of 2012 not only extended the National Flood Insurance Program's (NFIP) authority through September 30, 2017, but also requires that Fannie Mae accept flood insurance from private providers as an alternative to NFIP policies. The terms and amount of coverage provided under a private policy must be at least equal to that provided under an NFIP policy and the private insurer must meet Fannie Mae's rating requirements for insurance underwriters (described in B7-3-01, Hazard Insurance Policy Requirements).

B7-3-07, Flood Insurance Coverage Requirements, will be amended to accept flood insurance from private insurers as an alternative to NFIP coverage. All other requirements in Part B7-3-07 related to location of properties, amount of coverage, and maximum deductibles will remain unchanged.

A *Servicing Guide* announcement addressing this topic will be published in the near future.

Effective Date

Fannie Mae will accept deliveries of mortgage loans with acceptable private flood insurance coverage effective immediately.

Lenders who have questions about this Announcement should contact their Account Team.

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