

*Announcement 08-27*

*October 16, 2008*

*Amends these Guides: Selling*

*Permanent High-Cost Area Loan Limits*

**Introduction**

The Housing and Economic Recovery Act of 2008 (HERA), enacted on July 30, 2008, amends Fannie Mae's charter by establishing "high-cost" area conforming loan limits in addition to the current "general" conforming loan limits. This new legislation is intended to provide additional liquidity to the housing market.

This Announcement outlines Fannie Mae's eligibility, pricing, and delivery requirements for "high-balance" mortgage loans. It also describes the phase-out of the current jumbo-conforming product offering.

**Terminology**

- **General loan limits** are Fannie Mae's existing national loan limits. The general loan limits do not include the temporary increases that were authorized by the Economic Stimulus Act of 2008 (ESA), i.e., jumbo-conforming loan limits.
- **High-cost area loan limits** are the limits that will apply in high-cost areas as defined by the Federal Housing Finance Agency (FHFA).
- **High-balance mortgage loans** are loans with original principal balances that exceed the general loan limits, but meet the high-cost area loan limits.
- **Jumbo-conforming mortgage loans** are those loans that were originated between July 1, 2007 and December 31, 2008 in accordance with Fannie Mae's existing product for higher loan amounts that were authorized by the ESA.
- **Original principal balance** and **original loan amount** are interchangeable terms. Original loan amount is used in Fannie Mae's delivery systems.

## High-Cost Area Loan Limits

There are definitional differences between the two laws that were enacted in 2008 authorizing Fannie Mae to have higher loan limits for high-cost areas. The formulas are as follows:

- **Economic Stimulus Act** – the higher of \$417,000\* or 125 percent of the area median home price—not to exceed 175 percent of \$417,000, or \$729,750.
- **Housing and Economic Recovery Act** – the higher of \$417,000\* or 115 percent of the area median home price—not to exceed 150 percent of \$417,000, or \$625,500.

\*For one-unit properties in the continental United States.

Fannie Mae’s general loan limits will be subject to annual increases based on a formula to be developed by the FHFA. Under HERA, the general loan limits may not decrease even if national housing prices decrease. In areas where 115 percent of the area median home price exceeds our national limits, new high-cost area loan limits will apply.

The following chart contains the current 2008 general loan limits and the anticipated maximum high-cost area limits for 2009. Although the 2008 general loan limits are likely to be the same in 2009, Fannie Mae will communicate the final general loan limits when they become available. The specific 2009 loan limits for each high-cost area have not been published by the FHFA yet; Fannie Mae expects to receive them in the coming weeks.

<b>First Mortgage Maximum Allowable Original Loan Amounts</b>				
<b>Units</b>	<b>Contiguous States, District of Columbia, and Puerto Rico</b>		<b>Alaska, Guam, Hawaii, and the U.S. Virgin Islands</b>	
	General	High-Cost*	General	High-Cost*
One	\$417,000	\$625,500	\$625,500	\$938,250
Two	\$533,850	\$800,775	\$800,775	\$1,201,150
Three	\$645,300	\$967,950	\$967,950	\$1,451,925
Four	\$801,950	\$1,202,925	\$1,202,925	\$1,804,375

\* These amounts are the maximum loan amounts that may apply; the limit may be lower for a specific high-cost area.

Lenders are responsible for ensuring that the original principal balance of each mortgage loan does not exceed the applicable maximum loan limit for the specific area in which the property is located. To assist lenders in determining this, Fannie Mae posts reference material on [eFannieMae.com](http://eFannieMae.com). Once the 2009 loan limits are issued by the FHFA, Fannie Mae will update the Loan Limit Geocoder™ and the downloadable list of eligible areas and loan limits.

**Note:** Fannie Mae is not changing the maximum allowable original loan amounts for second mortgages. When selling second mortgages to Fannie Mae, lenders must calculate

the sum of the original loan amounts for the first and second mortgages and ensure that it does not exceed the maximum allowable limit for first mortgages based on the location of the subject property.

## Effective Dates

Subject to the limitations and requirements detailed in this Announcement, Fannie Mae will purchase high-balance mortgage loans as follows:

Delivery Method	Effective Dates
Whole Loans	Purchase on or after January 1, 2009
MBS	Delivery on or after January 1, 2009

**Note:** These effective dates presume that the 2009 high-cost area loan limits will be published by the FHFA by December 1, 2008. If the limits are not available by this date, the effective dates may be revised.

## Loan Eligibility for High-Balance Mortgage Loans

The loan limits authorized for high-cost areas by HERA reflect an expansion of what is defined as a “conforming” mortgage loan; hence Fannie Mae is broadly integrating high-balance mortgage loans by applying standard conforming loan eligibility requirements with a few exceptions noted below. Fannie Mae will treat high-balance mortgage loans as a loan feature, and not as a separate product. The following guidelines apply to all high-balance mortgage loans:

- Loans must be conventional first lien mortgages only.
- One-to-four unit properties are eligible.
- Mortgage loans must meet all standard Fannie Mae eligibility and delivery requirements, as outlined in the Fannie Mae *Selling Guide*, except as noted in this Announcement.
- High-balance mortgage loans may be underwritten manually or with Desktop Underwriter<sup>®</sup> (DU<sup>®</sup>). The high-cost area loan limits and eligibility requirements related to high-balance mortgage loans will be implemented in the December 2008 release of DU.

**Note:** Unless otherwise notified by Fannie Mae, existing variances in the lender's Master Agreement apply to high-balance mortgage loans. However, the more restrictive of the eligibility requirements of this Announcement or the lender's variance will apply.

## Exceptions to Eligibility Requirements

The following exceptions to Fannie Mae's *Selling Guide* eligibility requirements apply to all high-balance mortgage loans, including manually underwritten mortgage loans and

loan casefiles underwritten with DU. Loan-to-value (LTV), combined LTV (CLTV), and home-equity CLTV (HCLTV) ratio are collectively referred to as “LTV ratios” below.

- Purchase and limited cash-out refinance transactions secured by one-unit principal residences are limited to maximum LTV ratios of 90 percent. This also applies to HomeStyle<sup>®</sup> Renovation, Flexible mortgages, and manufactured housing transactions.
- MyCommunityMortgage<sup>®</sup> (MCM<sup>®</sup>) loans secured by one- to four-unit properties are limited to maximum LTV ratios of 90 percent.
- Purchase and limited cash-out refinance transactions secured by two-unit principal residences are limited to maximum LTV ratios of 75 percent. This also applies to two-unit HomeStyle Renovation mortgage loans.
- Cash-out refinance transactions secured by one- or two-unit principal residences are limited to maximum LTV ratios of 75 percent (one-unit manufactured housing transactions remain at 65 percent).
- Purchase transactions secured by two-unit investment properties are limited to maximum LTV ratios of 75 percent.

The following transactions are not eligible on high-balance mortgage loans:

- cash-out refinance transactions on investment properties or second homes,
- balloon mortgage loans,
- streamlined refinances, and
- adjustable-rate mortgage loans with a “representative” credit score below 680.

## **Updated Eligibility Charts**

The comprehensive LTV ratio charts have been updated to reflect the high-balance eligibility requirements (see the applicable footnotes on each chart). In addition, the DU Maximum Allowable LTV Ratios chart has been updated to reflect other eligibility changes that will occur in the December 2008 release of DU. Refer to the [DU 7.1 Release Notes](#) for more information. Additionally, a separate Expanded Approval<sup>®</sup> (EA) Eligibility chart has been created. Effective with this Announcement, Fannie Mae has renamed the collective charts – now labeled “Eligibility Matrix” – and has posted them on eFannieMae.com on the Single-Family Reference Materials page. The [Eligibility Matrix](#) is now exclusively available on eFannieMae.com and is incorporated by reference into the *Selling Guide*.

## **Mortgage Insurance Coverage**

Lenders should contact their mortgage insurance providers to confirm the eligibility and underwriting criteria they will apply to high-balance mortgage loans.

## Phase-out of Jumbo-Conforming Mortgage Loans

Jumbo-conforming mortgage loans must be originated by December 31, 2008, pursuant to the ESA. Fannie Mae will continue to accept deliveries of jumbo-conforming mortgage loans under our current eligibility and execution requirements (refer to Announcement 08-11: *Jumbo-Conforming Mortgage Loans - Expanded Eligibility and Products* for these requirements). Fannie Mae will announce the phase-out of this product offering for flow deliveries sometime in 2009.

**Note:** Jumbo-conforming mortgages continue to be excluded from the “to be announced” (TBA) market for MBS.

## Loan-Level Price Adjustments

Certain additional loan-level price adjustments (LLPA) apply to all high-balance mortgage loans as summarized below, whether delivered under whole loan commitments or MBS contracts. High-balance mortgage loans are also subject to all other applicable loan-level price adjustments per the *Selling Guide*, as well as the Adverse Market Delivery Charge. All price adjustments are cumulative.

Product Type or Loan Purpose	LLPA
ARM LTV/CLTV/HCLTV $\leq$ 75%	.75%
ARM LTV/CLTV/HCLTV $>$ 75%	1.50%
Cash-out refinance	1.00%

Fannie Mae has updated the *Loan-Level Price Adjustment Matrix and Adverse Market Delivery Charge Information* to reflect the new price adjustments. The updated matrix is available on [eFannieMae.com](http://eFannieMae.com).

## Delivery Data Requirements Including Special Feature Codes (SFC)

For all high-balance mortgage loans, the *Date of Mortgage Note* field in the loan delivery data will be a mandatory field. Refer to the *Selling Guide*, Part VI, Exhibits 1 and 2 (field 86) for the delivery data layout and field definitions.

Lenders must use Special Feature Code 808 when delivering high-balance mortgage loans to Fannie Mae. Special Feature Code 800 continues to be required for all jumbo-conforming mortgage loans. All other applicable special feature codes must also be provided.

## High-Balance Mortgage Loans in the TBA Market for MBS

The Securities Industry and Financial Markets Association (SIFMA) announced that it will allow high-balance mortgage loans to be “good delivery” in the TBA market for

MBS on a de minimis basis – up to 10 percent of the aggregate issue date unpaid principal balance of the pool. For high-balance mortgage loans, this impacts the TBA market for Fannie Mae MBS pools comprised of 15- and 30-year fully amortizing fixed-rate mortgage loans.

SIFMA has indicated that January 2009 will be the first issue month for TBA-eligible MBS pools containing high-balance mortgage loans. SIFMA has further stated that these pools may contain high-balance mortgage loans with origination dates (note date) of October 1, 2008 and later. SIFMA's forthcoming publication of updated *Good Delivery Guidelines* will provide formal confirmation of their requirements.

The pooling limitation for high-balance mortgage loans will be in addition to the existing non-standard pooling restrictions that apply to the following mortgage loans: cooperative share, relocation, and loans with significant temporary interest-rate buydowns. SIFMA requires these characteristics to be limited to 10 percent for one such characteristic and collectively limited to 15 percent of TBA-eligible pools for two or more such characteristics. SIFMA has indicated that the 10 percent limit for high-balance mortgage loans does not apply to this 15 percent collective limit.

## **MBS Pool Information for High-Balance and Jumbo-Conforming Mortgage Loans**

High-balance mortgage loans may be delivered into existing MBS contracts and will use the same base guaranty fees as those used for the lender's standard conforming mortgage loans. The following outlines key MBS pooling requirements:

- High-balance 15- and 30-year fixed-rate mortgage loans with mortgage note dates on or after October 1, 2008 may be commingled in TBA-eligible pools with mortgage loans meeting Fannie Mae's general loan limits, as long as the high-balance mortgage loans comprise no more than 10 percent of the aggregate issue date unpaid principal balance of the pool. Pool prefixes CI or CL will apply.
- For pools of 15- and 30-year fixed-rate mortgage loans with greater than 10 percent concentrations of high-balance mortgage loans pool prefixes CJ or CK (currently used for jumbo-conforming) will apply.
- For pools containing any high-balance mortgage loans originated prior to October 1, 2008, pool prefixes CJ or CK will apply.
- Pools containing mortgage loans with products other than 15- or 30-year fixed-rate will be permitted with unlimited commingling under the same non-TBA-eligible prefixes used for mortgage loans meeting our general loan limits.
- Pools containing any jumbo-conforming mortgage loans will continue to utilize the pool prefixes of CK, CJ, LC, LD, and NJ. Standard conforming, high-balance, and jumbo-conforming mortgage loans may be commingled in pools with these prefixes.

This chart summarizes the MBS prefix logic that Fannie Mae will apply.

<b>Loan Amount</b>	<b>Product</b>	<b>Note Date</b>	<b>Prefix</b>
Jumbo-conforming (SFC 800)	All allowable jumbo-conforming products	3/1/08 – 12/31/08 Flow or Bulk	CJ, CK, NJ, and LD
		7/1/07–2/28/08 Bulk only	JI, JL, LC
High-balance (SFC 808)	15-year fixed-rate	On or after 10/1/08	CI - up to 10% high-balance CJ - over 10% high-balance
		Before 10/1/08	CJ
	30-year fixed-rate	On or after 10/1/08	CL - up to 10% high-balance CK - over 10% high-balance
		Before 10/1/08	CK
All other products (Not TBA-eligible)	Any	All relevant standard non-TBA prefixes, no limit to commingling	

### **Fannie Majors<sup>®</sup>**

Lenders may deliver high-balance mortgage loans into a Fannie Majors TBA-eligible pool; however, each discrete delivery the lender makes under a given Fannie Majors pool will be subject to a high-balance loan concentration limit of 10 percent based on unpaid principal balance. For example, if a lender makes three separate deliveries into a January 2009, 30-year, 5.5 percent coupon Fannie Majors pool, each of the three deliveries must satisfy the 10 percent limitation for high balance loans.

Lenders may deliver into jumbo-conforming Fannie Majors pools high-balance mortgage loans that were originated before October 1, 2008 or deliveries that are comprised of greater than 10 percent concentrations of high-balance mortgage loans.

### **MBS Buyup and Buydown Grids**

The following table outlines the applicable buyup and buydown grids that lenders should use for high-balance mortgage loans:

<b>Pool Prefix</b>	<b>Applicable Buyup or Buydown Grid</b>
TBA pools with prefixes CL and CI	Standard conforming
Jumbo-conforming prefixes CK and CJ	Jumbo-conforming
All other pools/prefixes	Standard conforming

## Whole Loan Committing and Delivery of High-Balance and Jumbo-Conforming Mortgage Loans

Live pricing options will be provided for certain high-balance mortgage loan transactions in eCommitting™ for mandatory whole loan commitments beginning January 1, 2009. The following outlines key whole loan requirements:

- High-balance 15- and 30-year fully amortizing fixed-rate mortgage loans originated on or after October 1, 2008 may be delivered under existing or new standard whole loan commitments beginning January 1, 2009. Fannie Mae will implement a 10 percent restriction on concentrations of high-balance mortgage loans delivered under each whole loan commitment to mirror the MBS TBA pooling restriction. If the delivery of a high-balance mortgage loan would cause the lender to exceed the 10 percent limitation, or if the loan was originated before October 1, 2008, the lender will be required to deliver the mortgage loan against a high-balance whole loan commitment.
- High-balance mortgage loans originated with non-TBA-eligible products (e.g., ARMs, interest-only) will be eligible for delivery against standard conforming whole loan commitments, with no restriction on concentration.
- Jumbo-conforming mortgage loans will continue to be eligible for delivery only against jumbo-conforming whole loan commitments.

The following options will be added to Fannie Mae’s whole loan committing systems to accommodate high-balance mortgage loans that cannot be delivered against standard whole loan commitments because either 1) a high-balance mortgage loan has an origination date before October 1, 2008, or 2) delivery of a high-balance mortgage loan under a standard whole loan commitment would cause the high-balance concentration in the commitment to exceed 10 percent.

Whole Loan Committing	
Transaction Type	Pricing Available Date
15-Year Fixed Rate High-Balance 30- Year Fixed Rate High-Balance 30- Year Fixed Rate MyCommunityMortgage High-Balance 15- Year Fixed Rate Expanded Approval® High-Balance 30- Year Fixed Rate Expanded Approval High-Balance	January 1, 2009

**Note:** High-balance mortgage loans will also be available for Best Efforts commitments in eCommitONE™ beginning January 26, 2009, using the applicable high-balance transaction types above.

The following chart summarizes the whole loan committing approach for eCommitting (and does not apply to eCommitONE):

Loan Amount	Product	Note Date	Whole Loan Commitment Type
Jumbo-conforming (SFC 800)	All allowable jumbo-conforming products	3/1/08–12/31/08	Jumbo-conforming whole loan
High-balance (SFC 808)	15-year fixed-rate	On or after 10/1/08	Standard - up to 10% high-balance
		Before 10/1/08	High-balance
		Any	High-balance-over 10% high-balance
	30-year fixed-rate	On or after 10/1/08	Standard - up to 10% high-balance
		Before 10/1/08	High-balance
		Any	High-balance-over 10% high-balance
	TBA-eligible: MCM 30-year EA 15-year EA 30-year Fixed-rate	On or after 10/1/08	Standard MCM and EA – up to 10% high-balance
		Before 10/1/08	High-balance MCM and EA
		Any	High-balance MCM and EA – over 10% high-balance
	All other products	Any	Standard whole loan grids; no limit to commingling

## FHA Higher Balance Mortgages

In accordance with Announcement 08-11, *Jumbo-Conforming Mortgage Loans – Expanded Eligibility and Products*, Fannie Mae permits lenders to deliver higher balance FHA mortgage loans for whole loan or MBS execution. Lenders must continue to use SFC 798 to identify certain higher balance FHA mortgage loans. Refer to [Announcement 08-11](#) for additional information.

## Veterans Affairs (VA) and Rural Development (RD) Mortgage Loans

VA's maximum guaranty increases with increases in Fannie Mae's loan limits, and RD Guaranteed Section 502 mortgage loans are subject to the same Fannie Mae high-cost area loan limits that apply to conventional loans. Fannie Mae will purchase both VA and RD mortgage loans with higher balances beginning January 1, 2009.

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Lenders who have questions about Announcement 08-27 should contact their Customer Account Team.

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