Fannie Warns Lenders on Investment Properties and 2nd Homes

By: Jann Swanson | Thu, Mar 11 2021, 12:55 PM

Fannie Mae has sent lenders an advanced notice that **additional risk criteria is coming for loans it acquires from lenders.** Lender Letter 2021-08 lays out changes mandated by amendments to the Senior Preferred Stock Purchase Agreement (PSPA) between the Federal Housing Finance Agency (FHFA) and the Department of the Treasury in mid-January. The letter focuses on the **new 7 percent limitation on acquisitions of loans secured by second homes or investment properties.** All limits are measured as 52-week moving averages. As the investor and second home share of acquisitions is already above 7 percent and has been since 2013, this new rule will certainly have an impact.

In addition to that limit, all second home and investment property loans must be:

- Underwritten with Desktop Underwriter (DU)
- Receive an Approve/Eligible recommendation
- Be delivered as a DU loan in Loan Delivery.

Earlier this month the Urban Institute (UI) criticized the expected changes to the risk policies of the GSEs due to the PSPA changes. UI was especially critical of the limit on acquisitions of investment loans on the basis that loan level price adjustments made those loans a lucrative part of the GSE portfolios. The higher revenues not only compensate for any additional risk, but also allow for cross-subsidizing other purchases. Also, investor ownership of rental units in one-to-four family properties accounts for half of all rental units, and perhaps a larger share of those rented by low- and moderate income families. Placing limitations on the market, UI maintains, reduces the resources by which the GSEs can cut the cost of borrowing for underserved communities. Our summary of the UI critique can be read here.

The above policies will be effective for whole loans **submitted to Fannie Mae on or after April 1, 2021** and for loans delivered into mortgage backed security pools with issue dates on or after that date. The company said that due to the need to comply with these restrictions in PSPA, it we will be monitoring deliveries of second home and investor loans on a lender-level basis and will be working with lenders that have excessive delivery volume of these types of loans.

The company says it will update its *Selling Guide* and *Eligibility Matrix* to reflect the changes next month. MND expects a letter announcing similar if not identical changes will be forthcoming from Freddie Mac.

View this Article: https://www.mortgagenewsdaily.com/news/03112021-loan-underwriting