3900 Wisconsin Avenue, NW
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Announcement 07-22 *December 5, 2007*

Amends these Guides: Selling

Maximum Financing in Declining Markets

Introduction

Current home price trends indicate that home values continue to decline in many markets across the country. As a result, and based on our continued monitoring of loan performance, Fannie Mae is reinstating a policy to restrict the maximum loan-to-value (LTV) ratio and combined loan-to-value (CLTV) ratio for properties located within a declining market to five percentage points less than the maximum permitted for the selected mortgage product.

The reinstatement of the maximum financing policy and the other changes outlined in this Announcement are necessary in light of current market conditions. These policies are effective for all loans delivered with application dates on or after January 15, 2008.

This Announcement:

- Establishes restrictions on the maximum financing for properties located in declining markets;
- Encourages lenders to employ additional tools and processes to validate housing trends; and
- Establishes criteria for exceptions to the maximum financing policy.

Restrictions on the Maximum Financing for Properties Located in Declining Markets

Selling Guide Part VII, Chapter 1, Section 103.02, Limited Cash-Out Refinance Transactions; Section 104.09, Maximum Loan-to-Value Ratios; Section 114.03, Mortgage Terms; and Exhibits 1 and 2.

When a property is located in an area identified as declining, Fannie Mae will now require the lender to offer financing at LTV and CLTV ratios that are five percentage points below the maximum ratios allowed for the selected mortgage product. For example, when the highest LTV allowed for a particular mortgage product is 100 percent, maximum financing would be 95 percent if the subject property is located in an area identified as declining. (When the mortgage is subject to subordinate financing, the CLTV ratio for all outstanding mortgages is used for this purpose).

Determination of Housing Trends

Fannie Mae strongly encourages lenders to use supplemental sources and tools to independently assess current housing trends, unless the appraisal indicates that the subject property is located within a declining market. When the appraisal notes that the subject property is in a declining market, the maximum financing policy must be applied. When the appraisal does not indicate that the subject property is located within a declining market, Fannie Mae strongly urges lenders to implement processes and apply supplemental sources and tools to validate current housing trends and not rely solely on the information reflected in the appraisal. There are several services available that can be used by lenders and appraisers to assess current housing trends, including:

- S&P/Case-Shiller® Home Price Indices. These indices rely on purchase price and related information obtained from county assessor and recorder offices.
- Office of Federal Housing Enterprise Oversight (OFHEO) Index. For indications of market decline, lenders should use the index based on purchase loan data. Purchase-only indexes at the state level can be found at www.ofheo.gov/download.asp.
- National Association of REALTORS® (NAR) statistics on changes in median prices. NAR releases statistics on state-by-state existing-home sales and metropolitan area median home prices each quarter.

In addition, there are several other entities that provide reports that track current home prices on a subscription/fee basis and may be used at the lender's discretion.

Mortgage Loans Underwritten through Desktop Underwriter® (DU®). As stated in *Announcement 07-11, Collateral Valuation in Declining Markets*, DU will generate a message on loan casefiles when it appears that the property is located in an area of declining home prices, or in an area in which it may be difficult to assess home values. In these instances, DU provides the following message to lenders:

> *The subject property has been identified as being located in either an area of declining home prices or in an area where it may be difficult to assess home values. The lender should carefully review the appraisal to ensure that the appraiser has appropriately analyzed property value trends and overall market conditions to arrive at the value provided. The lender should request additional support from the appraiser if it determines that the appraisal does not accurately reflect current market conditions (e.g. the declining property values field is not checked when market conditions suggest otherwise.) Please refer to our Property and Appraisal Guidelines in Part XI of the Selling Guide.*

When the lender receives this message, the LTV for the mortgage loan must generally be adjusted to five percentage points below the maximum for the specific mortgage product.

However, if the lender receives the message from DU but has evidence that the property is not located in a declining market, the lender may offer maximum financing. Should the lender choose to offer maximum financing, the lender must be able to provide documentation that supports its assessment that the property is not located in a declining market.

If the lender has reduced the LTV of the mortgage loan, the lender is advised to resubmit the DU casefile with the new LTV.

All Other Mortgage Loans. Lenders who deliver loans that were manually underwritten or underwritten through another automated underwriting system must take appropriate steps to independently assess housing trends to determine if the appraisal accurately reflects current market conditions and value. When the appraisal does not indicate that the property is in a declining market, we strongly encourage the lender to implement processes to verify market conditions; such processes must include consulting supplemental sources and tools such as those mentioned above, and requesting additional support from the appraiser. For properties that either the lender determines to be in a declining market or the appraisal indicates a declining market, the LTV for the mortgage loan must be adjusted to five percentage points below the maximum LTV for the specific mortgage product.

Exceptions to the Maximum Financing Policy

The application of the maximum financing in a declining market policy will not apply when the borrower has an existing Fannie Mae-owned or securitized first mortgage and is requesting a new limited cash-out refinance mortgage.

Fannie Mae will continue to monitor real estate market conditions and the accuracy of appraisals on loans we purchase and securitize and may make further changes in the future if necessary.

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Lenders who have questions about this Announcement should contact their Customer Account Team for additional information.

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