THE FEDERAL SAVINGS BANK
Co. NMLS# 411500
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EQUAL HOUSING LENDER

Ted Rood
Branch Manager, Gen Way Home Mortgage
NMLS #543290
O Fallon, Missouri 63368

Office: 3147400004
Mobile: 314-740-0004
ted_rood@yahoo.com

More Relatively Big Changes in Most Recent Fannie Selling Guide

Fannie Mae has published a set of changes to its *Selling Guide*. The changes affect verification of **self-employed income**, Home-Style Renovation loans, eligibility reviews for Planned Unit Developments (PUDs), use of new disclosure forms, and cash-back pair-offs on mandatory whole loan commitments.

Self-Employment Income

The changes to self-employment income policies affect calculation and documentation of business income where the borrower does not have a history of **business income distributions**. The *Guide* has been updated to provide an alternative approach in which the lender can verify by confirming the borrower has (1) access to the business income and (2) there is adequate liquidity in the business to support withdrawal of earnings. The previous method of verification remains in effect as an alternative lenders may use.

Also within the self-employment income portion of the update the *Guide* will now reflect that **only the most recent year** of individual and business income federal tax returns will be required for certain Desktop Underwriter (DU) case files as long as the returns show at least 12 months of self-employment income. The lender must also complete the Fannie Mae *Cash Flow Analysis* (Form 1084) or another acceptable form of cash flow analysis. The update also contains a minor clarification that broadens a reference to "salaried income" in a section regarding the need for a written evaluation of that income.

The above changes go into effect immediately on a voluntary basis but will be required for loans with application dates on or after February 1, 2016.

PUD Eligibility Reviews

The *Selling Guide* has previously required lenders to conduct a review of attached PUD units against the ineligible project characteristics list of Fannie Mae's project eligibility requirements but did not require this of detached PUD units. In order to align requirements Fannie Mae is **immediately removing** the requirement for attached units as well.

HomeStyle Renovation Loans

National Average Mortgage Rates



Mortgage News Daily	Rate	Change	Points
30YR Fixed	7.51%	+0.01	0.00
15YR Fixed	7.04%	+0.01	0.00
30YR FHA	7.08%	+0.03	0.00
30YR Jumbo	7.52%	+0.02	0.00
7/6 SOFR	7.12%	-0.01	0.00
30YR VA	7.10%	+0.03	0.00

Rates as of: 11/16

MBS and Treasury

	Price / Yield	Change
MBS UMBS 6.0	98.73	+0.02
10 YR Treasury	5.1250	-0.0092
30 YR Treasury	5.4731	-0.0027

Pricing as of: 11/16 7:33PM EST

Recent Housing Data

		Value	Change
Mortgage Apps	Nov 4	204.6	+6.23%
Building Permits	Sep	1.4M	+0.43%
Housing Starts	Sep	1.22M	-4.24%
New Home Sales	Sep	676K	-1.17%
Pending Home Sales	Aug	71.2	0%
Existing Home Sales	Oct	3.99M	+0.25%
Builder Confidence	Oct	29	-9.38%

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Fannie Mae approved lenders are allowed to deliver HomeStyle Renovation loans prior to completion of renovation work as long as the loan is provided with recourse. This approval will now be included as an addendum to the Master Selling and Servicing Contract (MSSC) eliminating the need for a master contract and credit variance. The requirements for removing recourse are being added to the *Selling Guide*. In addition Fannie Mae has added the *Appraisal Update and/or Completion Report* (Form 1004D) to its *HomeStyle Completion Certificate* (Form 1036) as evidence of the completion of renovation.

Cash-Back Pair-Off Process

A fourth change is to the cash back pair-off process. Under this option, if a lender is unable to meet the terms of a mandatory whole loan commitment and, because of market fluctuations, the applicable whole loan commitment price is greater than at the time of pair-off, Fannie Mae will provide the lender with cash back. This option has only been available to certain lenders on a negotiated, contractual basis but will now be standardized and added to the *Selling Guide* so it will no long be necessary for lenders to engage in special negotiations or execute additional contracts.

Ineligible Projects (Non-Incidental Business Arrangements

The examples of non-incidental business income have been revised to remove income earned by the homeowners association through lease agreements with telecommunications and cable companies as it does not meet the active ownership definition. The 15 percent cap relative to the association's operation budget no longer applies to this income.

New Disclosure Forms

An earlier revision to the Selling Guide included reference to the new Closing Disclosure form that becomes effective in October. The revision included a requirement that the lender use the applicable version of the Disclosure form; the standard version or the alternate version for refinances. Due to feedback from lenders indicating they are not prepared to implement both standard and alternate versions at this time the requirement for the alternative version is deleted. Its voluntary use is encouraged and Fannie Mae will communicate new dates for mandatory usage and delivery next year.

Responsive service, experienced expertise

I've dedicated my 26 year mortgage career to client education, superior service, and honest answers. The lending landscape has changed dramatically the past few years, and continues to do so. My job is to ensure client partners' loans close quickly, without surprises, and I take that responsibility very seriously. Referrals are a responsibility I appreciate; they're a measure of trust, and that trust must be earned every day, on every referral.

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