



## **Title Acceptance Pilot FAQs**

For many aspiring and current homeowners, closing costs represent a substantial barrier to affordability when purchasing or refinancing a home. The Federal Housing Finance Agency (FHFA) continues to focus on ways in which Fannie Mae and Freddie Mac (the Enterprises) can reduce closing costs for homeowners in a safe and sound manner. The recently approved title acceptance pilot will allow existing homeowners that meet certain criteria to reduce some closing costs.

### **What is the title acceptance pilot?**

Title acceptance is a small-scale, limited duration pilot that will leverage an automated title review process to assess title risk during loan manufacturing and prior to loan purchase. Through such a process, Fannie Mae will be able to remove existing requirements that a lender's title insurance policy or Attorney Opinion Letter (AOL) be obtained for certain transactions.

### **What are the pilot eligibility requirements?**

Eligible loans for the pilot will be limited to certain refinance loans with loan-to-value ratios less than 80 percent. Participating lenders operating in select geographies will be able to originate and deliver loans under the terms of the pilot.

### **How will the pilot work?**

Lenders are permitted to sell refinance mortgage loans to the Enterprises only if they warrant that the mortgage is a valid first lien on the homeowner's property. Additionally, the property must be free and clear of any prior lien or encumbrance. These title requirements will not change under the pilot, but Fannie Mae will not require a repurchase or make-whole payment for certain title-related representations and warranties if lenders elect not to obtain title insurance or an AOL. Under the pilot, an automated title review process to assess title risk will inform whether title insurance or an AOL should be required, or if additional independent verification of title is unnecessary. If the automated title review process confidently assesses that title risk is low, lenders will not be required to provide additional independent verification and instead will pay a fee to the Enterprise to cover the risk that there is an unexpected title defect. This decision process will ensure that loans continue to be purchased in a safe and sound manner. Title acceptance, like any other pilot undertaken by an Enterprise, will be subject to robust oversight by FHFA.

### **Why is the pilot limited to refinance transactions?**

Pilots, often small in scale with limited duration, are meant to inform longer-term policy one way or the other. Pilots are a vital tool to test, learn, and in some cases, be scaled towards permanent policy. As Safety and Soundness Regulator and Conservator for Fannie Mae and Freddie Mac, we support testing conceptual approaches for consideration to broader policy application. In this

case the title acceptance pilot was scaled to refinance transactions as they represent a lower risk population because title remains with the same borrower in their existing residence.

**What are the expected impacts?**

Lenders purchase lender's title insurance to cover the mortgage, but homeowners bear the cost. Homeowners have no coverage under lender's title insurance. By eliminating the need for homeowners to purchase lender's title insurance, this pilot will create an opportunity to save homeowners \$500 - \$1,500 in closing costs on their refinance.

As with all Enterprise-backed transactions, homeowners may choose to purchase their own, separate title insurance policy if they want title coverage, at their own cost.

The pilot does not impact a homeowner's title risk since the existing homeowner continues to hold title. If title defects are discovered after the loan is refinanced, the homeowner is not responsible for curing the defects. The cost of curing title defects is expected to be low and will be offset by a lender fee applied to each loan sold through the pilot.