



Fannie Mae®

Close More Loans with HomeReady® Mortgage

An Overview for Loan Officers





An important note about the seminar content

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Agenda



- What is a HomeReady mortgage?
- HomeReady benefits
- Eligibility
- Pricing
- Mortgage insurance
- Homeownership education
- Other options to combine with HomeReady
- Summary and resources



What is a HomeReady mortgage?

HomeReady is an affordable low down payment mortgage product designed for creditworthy, low- to moderate-income borrowers, with expanded eligibility for financing homes in low-income communities.

With HomeReady, loan originators can reach growing market segments and close more loans.

Based on research

- A “demographic sea change” affecting the housing market is defined by the rise of the Millennials, increased diversity, and a growing elderly population.

Targeted and goal-oriented

- HomeReady may help lenders meet their Community Reinvestment Act goals.

Supports sustainable homeownership

- Competitive pricing, cancellable mortgage insurance (restrictions apply), and buyer education that positions borrowers for long-term success.





Consumer knowledge gap

Turning prospects into borrowers through education

We asked consumers to identify key mortgage qualification criteria (down payment, credit score, and DTI.) *Only about 50% could provide a correct answer.*

- Research shows mortgage qualification knowledge is lowest among lower-income and less-educated consumers—plus seniors, African Americans, and Hispanics.
- Opportunities exist to inform borrowers, especially those pursuing low down payment mortgage products.
- Your educational efforts can help home buyers overcome perceived obstacles and reinforce your role as a trusted advisor.

Lenders are cited as the most influential source of information for getting mortgage advice.

(33% most influential, 64% top three most influential)

Source: "What do consumers know about the mortgage qualification criteria" – Fannie Mae Economic and Strategic Research Group – December 2015





Who does HomeReady fit?



- Buyers who need flexibility with down payment and income qualification.
- Homeowners who want to refinance to lower their monthly payments
- Borrowers who meet income eligibility as follows:

Area Type	Percentage of Area Median Income (AMI)
Low-income census tracts	No income limit
All other properties	100%



HomeReady borrower benefits

Affordable. Flexible. Sustainable.

- **Low down payment** with up to 97% LTV financing for home purchases
- **Competitive pricing** meets or beats our standard loan pricing
- **Flexible sources of funds** with no minimum contribution requirement from borrower's own funds (1-unit properties)
- **Rental and boarder income** may be considered for qualifying
- **CLTV up to 105%** for loans with an eligible Community Seconds® transaction
- **Cancellable private mortgage insurance (PMI)** may be removed per *Servicing Guide* policy
- **Online learning** through Framework's interactive course explains the home buying process and the essentials of homeownership



HomeReady lender benefits

Competitive. Simple. Smart.

- **Competitive pricing** meets or beats our standard loan pricing
- **Lower than standard MI** requirements (25% for LTVs above 90% to 97%)
- **Income flexibilities** create opportunities to serve more borrowers, including those with accessory unit and boarder income
- **Manufactured housing** eligibility up to 95% LTV
- **Online learning and post-purchase support** through Framework help prepare buyers for smart homeownership
- **Automatic identification** of potentially HomeReady-eligible loans in Desktop Underwriter®
- **Availability of Day 1 Certainty™** offers lenders freedom from representations and warranties plus greater speed and simplicity



Borrower income eligibility

Borrower Income Limits	Opportunity (based on 2017 data)
No income limit: Properties in low-income census tracts ¹	31% of census tracts
100% of AMI: All other properties	69% of census tracts

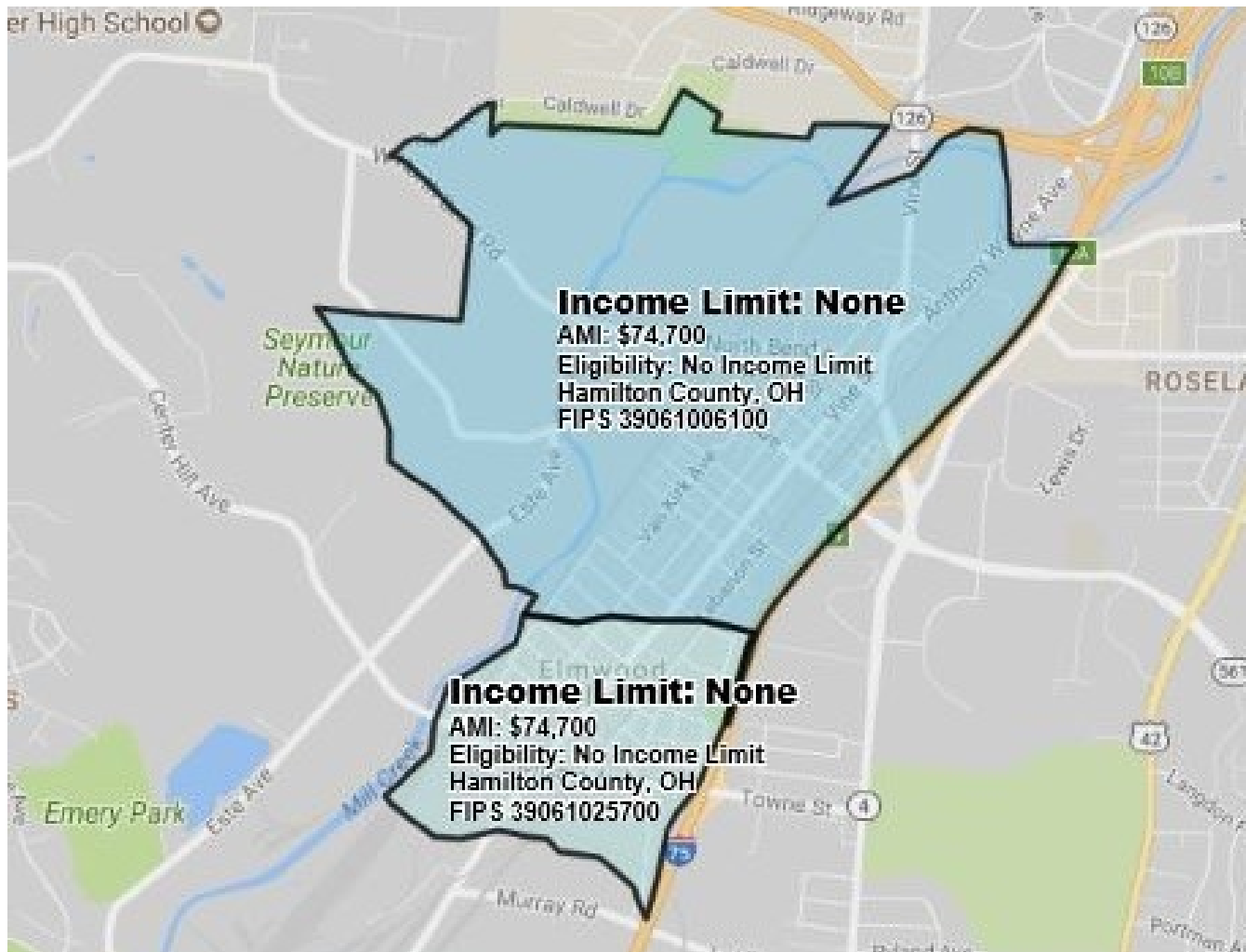
Loan officers and real estate professionals can use the mobile friendly tool to quickly and easily look up HomeReady income eligibility by property address or by FIPS code.

<https://homeready-eligibility.fanniemae.com/homeready/>

¹ Low-income census tract = census tract where the median tract income is no greater than 80% AMI



Income Eligibility Lookup tool





Eligibility – LTV/property type

	1-Unit	2- to 4-Unit
Loan Purpose	Purchase or Limited Cash-out Refinance (LCOR)	
Product	<ul style="list-style-type: none">■ FRM: 10-, 15-, 20-, or 30-year terms■ ARM: 5/1 (2/2/5 and 2/2/6 caps only), 5/5, 7/1, and 10/1	
Occupancy and Property Type	<p>1-unit principal residence, including eligible condos, co-ops, and PUDs.</p> <p>Manufactured housing is eligible in accordance with standard Fannie Mae Manufactured housing guidelines:</p> <ul style="list-style-type: none">■ Desktop Underwriter only■ Max 95% LTV/CLTV■ FRMs and 7/1 and 10/1 ARMs	<p>2- to 4-unit principal residence (no condos, co-ops, or manufactured housing)</p>



Eligibility – LTV/property type

	1-Unit	2- to 4-Unit
Maximum LTV/CLTV and Subordinate Financing	<p>Purchase:</p> <ul style="list-style-type: none">■ DU only: 97% (FRM) No requirement that the transaction include a first-time home buyer■ DU and manual underwriting to 95% (FRM and ARM) <p>LCOR:</p> <ul style="list-style-type: none">■ DU and manual underwriting: 95% (FRM and ARM)■ LCOR LTV up to 97% in DU only when the loan being refinanced is owned or guaranteed by Fannie Mae	<p>Purchase or LCOR</p> <ul style="list-style-type: none">■ 2-unit: 85% (FRM and ARM)■ 3- to 4-unit: 75% (FRM and ARM)
	<p>CLTV up to 105% with eligible Community Seconds (refer to Eligibility Matrix for details); other subordinate financing per the <i>Selling Guide</i>. (Note: The maximum CLTV for manufactured housing is 95%.)</p>	



Eligibility – Down payment

	1-Unit	2- to 4-Unit
Minimum Borrower Contribution (own funds)	\$0	\$0 for LTV/ CLTV/ HCLTV* of 80% or less; 3% for LTV / CLTV/ HCLTV > 80%
Acceptable Sources of Funds for Down Payment and Closing Costs	<ul style="list-style-type: none">■ Gifts, grants, and Community Seconds®■ Cash-on-hand for 1-unit properties only■ Any eligible loan may have more than one Community Seconds (i.e., third lien) up to the maximum 105% CLTV (see Community Seconds fact sheet)	

- * HCLTV = Home Equity Combined Loan-To-Value



Example: Borrower using cash-on-hand

Scenario

A borrower who does not have a bank account wants to use money he has saved (cash-on-hand) otherwise known as “mattress money” for his down payment to purchase a 1-unit home.

Eligibility

This is acceptable if the borrower customarily uses cash for expenses.

May not use cash on hand for reserves (if required).



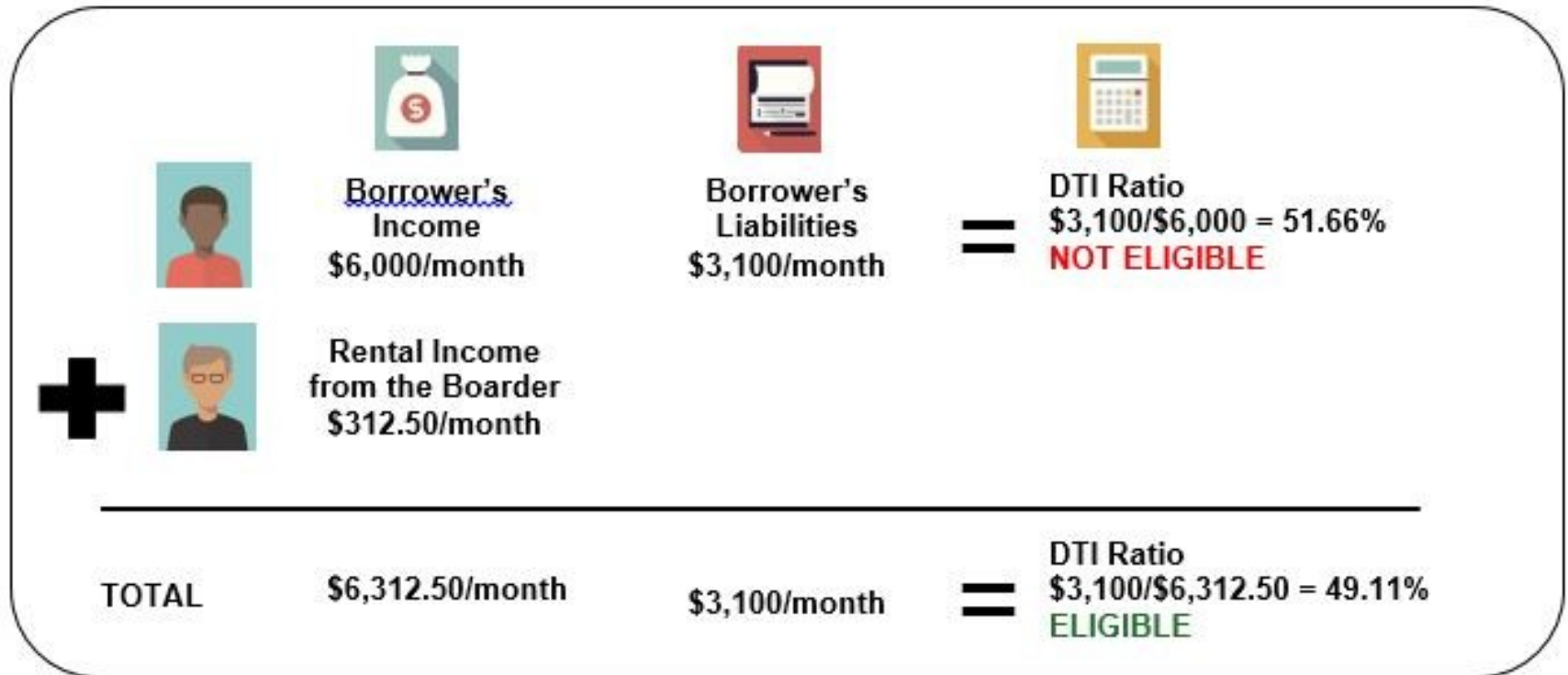


Borrower income flexibilities

Flexibility	Income considerations
Non-occupant borrowers	Consider income, assets, credit, and liabilities (DU LTV up to 95%; manual underwriting LTV up to 90%)
Boarder Income	Include as qualifying income
Rental income from an accessory unit	Include as qualifying income



Boarder income sample scenario





Identifying casefiles that may be HomeReady eligible

Loan Officer

- DU provides messaging in Risk/Eligibility section if a casefile may be HomeReady eligible and another **conventional** product has been run
- To take advantage of potential HomeReady savings, loan officers can resubmit the casefile in DU as HomeReady by selecting “HomeReady” as the “Community Lending Product.”

Lender

- Lenders have direct access to Fannie Mae Connect reports that show DU casefiles that may be HomeReady eligible. Loan-level data include:
 - Lender Loan Number
 - Potential LLPA Savings
 - DU casefile ID



DU messaging: HomeReady eligibility

If a loan casefile is potentially eligible for HomeReady, but hasn't been submitted as HomeReady, you will see a message in the Risk/Eligibility section of the DU Underwriting Findings report.

DU Underwriting Findings

SUMMARY

Recommendation	Approve/Eligible		
Primary Borrower	John Homeowner	Co-Borrower	Mary Homeowner
Lender Loan Number	HR test	Casefile ID	1394544590
Submission Date	09/20/2016 05:19PM	Submitted By	gamma
First Submission Date	09/20/2016 05:14PM	DU Version	10.0
Submission Number	3		

Mortgage Information

LTV/CLTV/HCLTV	67.00% / 67.00% / 67.00%	Note Rate	5.000%
Housing Expense Ratio	10.74%	Loan Type	Conventional
Debt-to-Income Ratio	27.38%	Loan Term	360
Total Loan Amount	\$100000.00	Amortization Type	Fixed Rate
Sales Price	\$150000.00	Loan Purpose	Purchase
Actual/Estimated Appraised Value	\$150000.00	Refi Purpose	

Property Information

Property Address	4250 WISCONSIN AVE NW WASHINGTON, DC 20016	Number of Units	1
Property Type	Detached	Occupancy Status	Primary Residence

RISK/ELIGIBILITY

1	The risk profile of this loan casefile appears to meet Fannie Mae's guidelines.
2	This loan casefile appears to meet Fannie Mae's eligibility requirements.
3	Based on the qualifying income and HomeReady income guidelines for the area in which the property is located, this loan casefile may be eligible as a HomeReady mortgage loan. The lender may choose HomeReady as the Community Lending product in the online loan application and resubmit the loan casefile to DU.

FINDINGS



Resubmitting a DU loan casefile as HomeReady

- Select **HomeReady** in the Community Lending Product field.
- If you are using a Community Seconds[®] mortgage, select **Yes** in the Community Seconds field. Otherwise, select **No**.
- If you are using a Community Seconds mortgage, you must select the appropriate option from the **Community Seconds Repayment Structure** drop-down list.
- You can select the **County**, but it is no longer used to determine the income limit. The census tract is used to determine the income limit.


Community Lending Information

Community Lending Product	HomeReady ▼
Community Seconds	No ▼
Community Seconds Repayment Structure	▼
County	▼




Missed opportunity reports in Fannie Mae Connect™


This report provides a list of DU casefiles that may be eligible for HomeReady. The goal of the report is to help lenders resubmit these casefiles as HomeReady to take advantage of pricing benefits.


 **Fannie Mae**

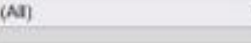
Potential HomeReady® Eligible Casefiles*

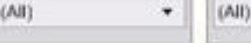
779 current applications in DU could save you **\$1.1M** in LLPA by underwriting them as HomeReady, compared to Fannie Mae Standard mortgages.

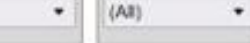



Lender


Lender #


DU Recommendation
(All) 

Purpose
(All) 

FICO
(All) 

LTV
(All) 

Casefile #	Lender Loan #	Day of Creation	Day of Last Submission	Lender #	Broker Name	DU Recommendation	Purpose	Product	UPB	FICO	LTV	DTI	Estimated LLPA Savings
		7/26/17	9/6/17			App/Elig	LCOR	30YR FRM	304,000	671	80%	44%	\$3,800
		7/10/17	9/6/17			App/Elig	PMM	30YR FRM	123,000	778	95%	39%	\$308
		6/27/17	9/6/17			App/Elig	PMM	30YR FRM	39,315	730	95%	24%	\$197
		7/4/17	9/6/17			App/Elig	PMM	30YR FRM	164,500	708	97%	31%	\$2,468
		7/20/17	9/6/17			App/Elig	PMM	30YR FRM	185,850	789	90%	20%	\$465
		4/10/17	9/6/17			App/Elig	PMM	30YR FRM	164,350	784	95%	33%	\$411
		7/19/17	9/6/17			App/Elig	PMM	30YR FRM	170,905	807	95%	18%	\$427
		7/25/17	9/6/17			App/Elig	PMM	30YR FRM	102,000	629	80%	45%	\$2,295
		7/10/17	9/6/17			App/Elig	PMM	30YR FRM	200,790	771	97%	28%	\$1,506
		7/24/17	9/6/17			App/Elig	PMM	30YR FRM	77,615	776	95%	35%	\$194
		7/26/17	9/6/17			App/Elig	PMM	30YR FRM	84,550	626	95%	40%	\$2,114



DU Version 10.1 impacts to HomeReady

Effective the weekend of July 29, 2017

Simpler, more certain underwriting guidelines, will help lenders serve their borrowers with fewer manual processes:

- For loan casefiles underwritten through DU Version 10.1, the maximum allowable DTI ratio will be adjusted to consider applications with a DTI ratio up to 50%. As a result, the non-borrower household income flexibility will be retired and completion of housing counseling will no longer be considered a compensating factor.

Other changes impacting HomeReady include:

- Maximum LTV ratios for adjustable-rate mortgages (ARMs) aligned with those for fixed-rate mortgages, up to 95%
- Less tax return documentation required with DU underwriting for many self-employed borrowers



Student Loan Solutions (announced April 25, 2017)

To help those with student debt qualify for a home loan and reduce or even eliminate student debt, Fannie Mae has introduced...

- **Student Loan Cash-Out Refinance:** Offers homeowners the flexibility to pay off high interest rate student debt while potentially refinancing to a lower mortgage interest rate.
- **Debt Paid by Others:** Widens borrower eligibility to qualify for a home loan by excluding from the borrower's debt-to-income ratio non-mortgage debt, such as credit cards, auto loans, and student loans, paid by someone else.
- **Student Debt Payment Calculation:** Makes it more likely for borrowers with student debt to qualify for a loan by allowing lenders to accept student loan payment information on credit reports.



Pricing

Loan-level price adjustments (LLPAs)

- Standard risk-based LLPAs waived with an LTV above 80% *and* a representative credit score equal to or greater than 680
- For loans outside of these parameters, standard LLPAs apply (per the [LLPA matrix](#)) with a cap of 1.50%

- **Competitive opportunity:** Offer your borrowers the price they deserve—identify eligible loans with DU, and deliver them as HomeReady to avoid unnecessary LLPAs.
- **Competitive execution:** Pricing is better than or equal to Fannie Mae standard loan pricing and supports a competitive borrower payment.

Also consider the borrower benefit of conventional home financing with reduced MI coverage requirements and cancellable monthly MI.

Save borrowers thousands compared to mortgages that require MI over the life of a loan



Mortgage insurance (MI) coverage and financed MI



MI Coverage	<ul style="list-style-type: none">■ 25% MI coverage for LTV ratios 90.01–97%■ Standard MI coverage for LTV ratios of 90% or less
Financed MI	MI may be financed up to the maximum LTV for the transaction, including the financed MI
Lender-Paid MI	May be used

Note: Minimum MI coverage may be used with additional LLPA; the HomeReady LLPA waiver or cap does not apply.



Sample borrower scenario

(FHA, HomeReady, and Fannie Mae standard)

30-year fixed-rate scenario Purchase price: \$200K	FHA mortgage Note rate: 4.00% LTV: 96.50%	HomeReady mortgage Note rate: 4.25% LTV: 97%	Fannie Mae standard Note rate: 4.50% LTV: 97%*
Base loan amount	\$193,000	\$194,000	\$194,000
Upfront MIP rate (%)	1.75%	0	0
Upfront MIP cost (\$)	\$3,377.50	\$0	\$0
Total loan amount	\$196,377.50	\$194,000	\$194,000
Down payment	\$7,000	\$6,000	\$6,000
Monthly MI rate (%)	0.85%	0.77%	0.95%
Monthly MI (\$)	\$137	\$124	\$154
Principal/interest monthly payment	\$938	\$954	\$983
Monthly payment	\$1,074	\$1,079	\$1,137
Upon removal of mortgage insurance per Fannie Mae <i>Selling Guide</i> requirements.			
Monthly MI premium	\$122 Cannot be canceled	\$0	\$0
Total monthly payment	\$1,060	\$954	\$983

*The borrower must be a first-time home buyer to be eligible for a 97% LTV Fannie Mae standard loan; for non-first-time home buyers, the maximum LTV is 95%.

Notes: FHA loans allow credit scores of 580 or higher. The minimum credit score for a Fannie Mae loan, including HomeReady, is 620; this example uses a 720 credit score. FHA MIP rate effective January 26, 2015; see Mortgagee Letter 2015-01: <http://portal.hud.gov/hudportal/documents/huddoc?id=15-01ml.pdf>. Note rates based on observed market rates as of December 2016 and adjusted to cover applicable loan-level price adjustments. FHA Upfront MIP cost is typically financed into the loan amount.



Homeownership education requirement

One borrower on each HomeReady purchase loan must fulfill the homeownership education requirement. The **Framework homeownership education course** is the simplest, most convenient way for most home buyers to fulfill the requirement.

Exceptions

1. HomeReady loans that involve a Community Seconds® or down payment assistance program
2. If a borrower has a lack of Internet access or other circumstances that make an online course unsuitable, Framework can refer the borrower to HUD-approved counseling agency.
3. Borrowers who have **already** completed one-on-one housing counseling are not required to complete the Framework course. Counseling should occur as early as possible. Required components of counseling **must** be completed before a buyer enters into a contract to purchase a home.



HomeReady summary



Grow your business. Close more loans.

Competitive

- Standard risk-based pricing waived for LTVs >80% with a credit score >=680
- Competitive borrower payment
- Execution always better than or equal to our standard pricing

Simple

- Easy income eligibility
- DU automatically identifies borrower eligibility
- Delivery with standard loans

Smart

- Homeownership education via online Framework course
- Access to post-purchase HUD-approved homeownership advisors
- Options for borrowers who need specialized help

Features

Eligibility

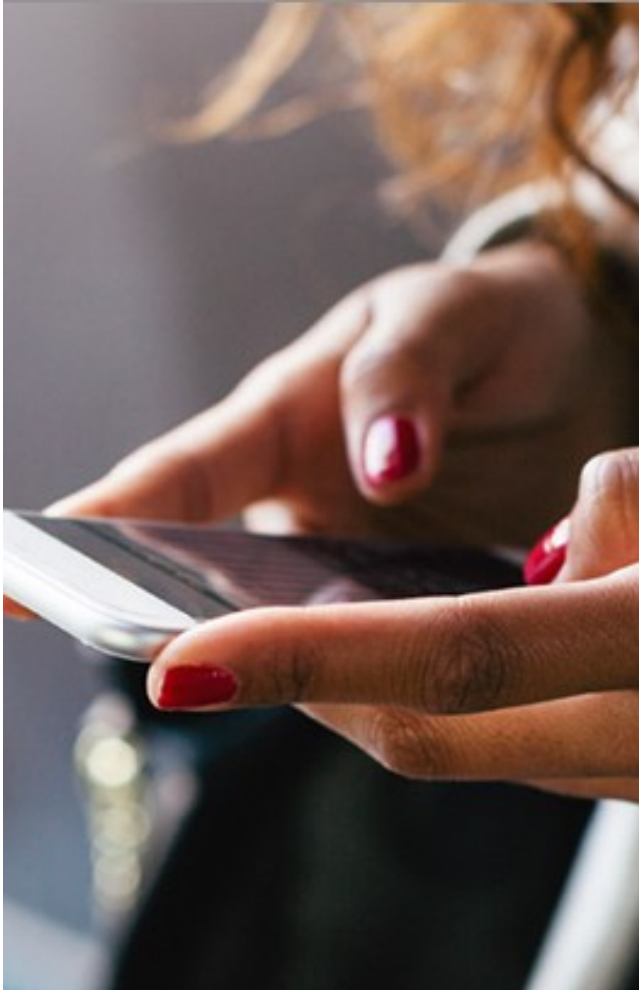
- Financing up to 97% LTV (DU only)
- Manufactured housing to 95% (DU only)
- HomeStyle® Renovation to 95% (requires lender approval)

Income flexibilities

- Non-occupant borrowers
- Rental income from accessory units (1-unit property)
- Boarder income documentation flexibility



Visit our HomeReady mortgage page



Go to fanniemae.com/homeready:

- Fact sheets, product comparison, and FAQs
- Income flexibility details for rental and boarder income and non-occupant borrowers
- Income eligibility lookup tool and census tract spreadsheet
- Free customizable HomeReady marketing materials at our Marketing Center
- Framework online learning information
- Link to the Down Payment Resource (third-party website)