THE MORTGAGE COMPLIANCE MONITOR™

BANKERS ADVISORY

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Fannie Mae Clarifies Loan to Value Ratios in the Selling Guide

Anna Desimone

On March 31, 2011 Fannie Mae updated the Selling Guide clarify policy changes made regarding the calculations of ratios. The Selling Guide contains a number of references to the calculation of LTV, CLTV, and HCLTV ratios and the vast majority of these references indicated that ratio calculations were to be based on the "loan amount." However, in other instances, the Guide referenced "unpaid principal balance" to be used in calculations.

Fannie Mae has updated the Guide in an effort to provide consistency and clarity within the Guide and to match Fannie Mae's current loan delivery requirements. The Selling Guide now reflects "original loan amount" in all references to these ratio calculations. Lenders should refer to Fannie Mae's Eligibility Matrix for allowable CLTV ratios.

Calculation of the Loan-to-Value (LTV) Ratios

The maximum allowable LTV ratio for a first mortgage is based on a number of factors including, the representative credit score, the type of mortgage product, the number of dwelling units, and the occupancy status of the property. Fannie Mae publishes the following table to describe the requirements for calculating LTV ratios for a first mortgage transaction. The result of these calculations must be truncated (shortened) to two decimal places, then rounded up to the nearest whole percent. For example:

- 96.01% will be delivered as 97%

- 80.001 will be delivered as 80%

The rounding rules noted above also apply to the CLTV and HCLTV ratio calculations. Lenders' systems must contain rounding methodology that results in the same or a higher LTV ratio.

Underwriting Method	Type of Transaction	Calculation of the LTV Ratio
Manual and DU	Purchase money transactions	Divide the original loan amount by the property value. (The property value is the lower of the sales price or the current appraised value.)
Manual and DU	Refinance transactions	Divide the original loan amount by the property value. (The property value is the current appraised value.)
Manual	Co-op share loans	Divide the original loan amount by the lower of the sales price for the co-op unit or the appraised value of the co-op stock or shares unencumbered by the unit's pro rata share of the project's blanket mortgage.
Manual and DU	Mortgages with financed mortgage insurance	Divide the original loan amount plus the financed mortgage insurance by the property value. (The property value is the lower of the sales price or the current appraised value.)

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Sales Price and Appraised Value Used by Desktop Underwriter® (DU)

DU uses information in the online loan application to obtain the sales price and appraised value it uses to calculate the LTV, CLTV, and HCLTV ratios. To determine the sales price and appraised value, DU uses the amounts entered in the following data fields:

Sales price = Line a + Line b + Line c in Section VII, where:

- Line a = Purchase price (the sales price for purchase transactions, or the cost of construction for construction transactions).

- Line b = Alterations, improvements, repairs (for HomeStyle Renovation transactions, the cost of alterations, improvements, or repairs).

- Line c = For construction transactions, the cost or value of the land if the borrower acquired the lot separately.

Appraised value = Property Appraised Value in the Additional Data screen.

Note: If the estimated value that was submitted to DU differs from the actual value, the lender must correct the information in DU and resubmit the loan case file.

Loan-Level Price Adjustments (LLPA)

An LLPA may apply to certain mortgages based on the LTV ratio and representative credit score. These LLPAs are in addition to any other price adjustments that are otherwise applicable to the particular transaction. Lenders must refer to the Loan-Level Price Adjustment (LLPA) Matrix and Adverse Market Delivery Charge (AMDC) Information.

Calculation of the CLTV Ratio

For first mortgage loans that are subject to subordinate financing, the lender must calculate the LTV ratio and the CLTV ratio. The CLTV ratio is determined by dividing the sum of the items listed below by the lesser of the sales price or the appraised value of the property.

- the original loan amount of the first mortgage,

- the drawn portion (outstanding principal balance) of a HELOC, and

- the unpaid principal balance of all closed-end subordinate financing. (With a closed-end loan, a borrower draws down all funds on day one and may not make any payment plan changes or access any paid-down principal once the loan is closed.)

Note: For each subordinate liability, in order for the lender to accurately calculate the CLTV ratio for eligibility and underwriting purposes, the lender must determine the drawn portion of all HELOCs, if applicable, and the unpaid principal balance for all closed-end subordinate financing. If any subordinate financing is not shown on a credit report, the lender must obtain documentation from the borrower or creditor.

If the borrower discloses, or the lender discovers, new (or increased) subordinate financing after the underwriting decision has been made, up to and concurrent with closing, the lender must re-underwrite the mortgage loan. Lenders should refer to the Eligibility Matrix for allowable CLTV ratios.

Home Equity Combined Loan-to-Value (HCLTV) Ratios

For first mortgages that have subordinate financing under a HELOC, the lender must calculate the HCLTV ratio. This is determined by dividing the sum of the items listed below by the lesser of the sales price or appraised value of the property.

• the original loan amount of the first mortgage,

• the full amount of any HELOCs (whether or not funds have been drawn), and

• the unpaid principal balance of all closed-end subordinate financing.

Note: For each subordinate liability, in order for the lender to accurately calculate the HCLTV ratio for eligibility and underwriting purposes, the lender must determine the maximum credit line for all HELOCs, if applicable, and the unpaid principal balance for all closed-end subordinate financing. If any subordinate financing is not shown on a credit report, the lender must obtain documentation from the borrower or creditor.

If the borrower discloses, or the lender discovers, new (or increased) subordinate financing after the underwriting decision has been made, up to and concurrent with closing, the lender must re-underwrite the mortgage loan. Lenders should refer to the Eligibility Matrix for allowable HCLTV ratios.