



Bankers Advisory

COMPLIANCE MONITOR

December 8, 2014

Fannie Mae Announces 97 Percent LTV Option for First-Time Homebuyers

By Anna DeSimone, President

December 8, 2014, Fannie Mae announced an option for qualified first-time homebuyers that will allow for a down payment as low as three percent. Building upon Fannie Mae's successful lower down payment program offered through state Housing Finance Agencies, the 97 percent loan-to-value ratio (LTV) option will expand access to credit for qualified first-time homebuyers that may not have the resources for a larger down payment. These loans will meet Fannie Mae's usual eligibility requirements, including underwriting, income documentation and risk management standards. These loans will require private mortgage insurance or other risk sharing, as is required on purchase loans acquired by the company with greater than 80 percent LTV.

With this announcement, homebuyers can purchase a home under Fannie Mae's standard offering or its **My Community Mortgage**[®] product with a three percent down payment if at least one co-borrower is a first-time buyer. In addition, eligible homeowners who wish to refinance their Fannie Mae-owned mortgage but do not qualify under the Home Affordable Refinance Program (HARP) can refinance their loan up to the 97 percent LTV level under a limited cash-out option. Lenders must use Fannie Mae's Desktop Underwriter[®] tool when evaluating mortgage applications for this product.

Brief Summary of the Policy Changes

Following is a summary of the policy changes that are more fully described in the Announcement. Fannie Mae will allow LTV ratios greater than 95% up to a maximum of 97% for:

- My Community Mortgage[®] (MCM[®]) purchase transactions if at least one borrower is a first-time home buyer and pre-purchase home-buyer education and counseling is completed,
- standard purchase transactions (non-MCM) if at least one borrower is a first-time home buyer, or
- standard limited cash-out refinances (non-MCM) of existing Fannie Mae loans.

All loans must be fixed-rate and secured by a one-unit principal residence. Manufactured housing is not permitted. All loans must be underwritten with DU.

In addition, for MCM loans Fannie Mae will now allow reserves to come from gifts. This applies to both manually underwritten loans and loan case files underwritten with DU.

Effective Dates

The 97% LTV ratio updates will be available for loan case files underwritten through DU Version 9.2, which will be implemented the weekend of December 13, 2014. The updated reserves policy for manually underwritten MCM loans is effective immediately. (DU currently includes excess gift funds in the reserves calculation.)

Purchase Transactions

The increased LTV, CLTV, and HCLTV ratios will be permitted for both standard business and MCM loans. The requirements for purchase transactions are in the Announcement.



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