



Bankers Advisory

COMPLIANCE MONITOR

September 30, 2015

Fannie Mae Updates HomeReady Mortgage and other Selling Guide Topics

By Anna DeSimone

September 29, 2015, Fannie Mae issued SEL-2015-10: *Selling Guide* Updates.

The *Selling Guide* has been updated to include changes to the following:

- HomeReady™ Mortgage
- Homeownership Education and Housing Counseling
- High-Balance Mortgage Loan Eligibility
- Non-Occupant Borrower Policies in Desktop Underwriter®
- Miscellaneous *Selling Guide* Updates

Key highlights of the update are reproduced from the Announcement:

HomeReady Mortgage

Fannie Mae is introducing the HomeReady mortgage as its enhanced affordable lending product, building on the longtime success of MyCommunityMortgage® (MCM®) since launched in 2001. Over time, some of MCM's eligibility and underwriting flexibilities have been transitioned into standard policy. Recognizing the continuing need to provide more access to credit for creditworthy borrowers, Fannie Mae has developed new or revised loan and borrower eligibility requirements and underwriting flexibilities that are targeted to low- to moderate-income borrowers and buyers in designated low-income, minority, and disaster-impacted communities. As a result of these changes, the MCM product has been redesigned with features intended to help lenders, non-profit organizations, housing finance agencies, and other affordable housing advocates serve today's market and support sustainable homeownership. In addition, the MCM product name has been replaced with "HomeReady mortgage."

The following list highlights some of the major policy changes that have been incorporated in the HomeReady mortgage:

- **The HomeReady mortgage** is a standard product offering available to all Fannie Mae lenders. No special approvals are required.
- **Borrower eligibility** - General income limit of 80% of area median income (AMI) to align with Fannie Mae's housing goals. Eligibility is also provided for properties located in low-income census tracts with no borrower income limits, and up to 100% of AMI for properties located in high minority census tracts or designated disaster areas. The requirement that at least one borrower

must be a first-time home buyer has been removed for one-unit principal residence loans with LTV ratios greater than 95% up to 97% that are underwritten through Desktop Underwriter (DU®).

- **Underwriting enhancements** – Non-borrower household income from a family member is permitted as a compensating factor to support a higher debt-to-income (DTI) ratio in DU. The lender must obtain a written statement from the non-borrower that he or she intends to reside with the borrower in the subject property or can use the *HomeReady Non-Borrower Household Income Worksheet and Certification (Form 1019)* that has been developed to assist lenders in capturing the non-borrower household income requirements.
- Non-occupant borrowers are permitted for qualifying purposes.
- Boarder income guidelines have been updated to provide documentation flexibility.
- Rental income from an accessory unit may be considered in qualifying the borrower.
- DU – DU messaging will identify when the loan may be eligible as a HomeReady mortgage based on an assessment of qualifying income against the applicable income limits.
- Manufactured housing – One-unit manufactured housing properties will be permitted as an eligible property type for principal residence transactions. The maximum LTV, CLTV, and HCLTV ratios for manufactured housing apply. Other requirements specific to manufactured housing continue to apply, such as the requirement for DU.
- HomeStyle® Renovation – HomeStyle Renovation mortgages will be permitted for principal residence transactions. The maximum LTV, CLTV, and HCLTV ratios for HomeStyle Renovation apply. Other requirements specific to HomeStyle Renovation continue to apply, such as lender approval.
- Two- to-four unit properties – the maximum LTV, CLTV, and HCLTV ratios for loans secured by two- to-four unit properties has been reduced to align with standard eligibility (no longer at 95%).
- Homeownership education – This is required for at least one borrower for both purchase and limited cash-out refinance transactions. (See Homeownership Education and Housing Counseling below for more information).
- Buydowns – Both 2-1 and 3-2-1 buydown structures are permitted.
- Pricing – Fannie Mae is simplifying the way HomeReady loans will be delivered by eliminating the need for separate delivery contracts or whole loan commitments. For MBS loans, lenders will deliver HomeReady at their standard base guaranty fee into standard contracts; for whole loans, lenders will commit and deliver HomeReady loans into standard whole loan commitments. Standard risk-based loan-level price adjustments (LLPAs), as shown in the LPA Matrix, will be waived for any HomeReady loan with an LTV ratio greater than 80% and a representative credit score equal to or greater than 680. For all other HomeReady loans, the LLPAs will be capped at 1.50%.
- Mortgage insurance – Standard mortgage insurance is required on loans with LTV ratios at or below 90%, and 25% coverage is required for loans with LTV ratios above 90% to 97%. The Minimum Mortgage Insurance Coverage Option may be used with HomeReady loans, but the waiver or cap of LLPAs does not apply to the LPA for that option.
- In an effort to further simplify Fannie Mae's affordable lending product for lenders and borrowers alike, Fannie Mae has retired the Community Solutions™ and Community HomeChoice™ MCM features, which generally required manual underwriting.

For additional information concerning the HomeReady mortgage, review the HomeReady topics in the *Selling Guide* in their entirety, the DU Version 9.3 Release Notes, and also see Fannie Mae's website.

Effective Dates

HomeReady: Lenders can begin taking borrower loan applications immediately and manually underwrite them. HomeReady will be implemented in DU Version 9.3 the weekend of December 12, 2015. Committing and delivery of HomeReady mortgages will be available beginning December 21, 2015.

MCM: MCM loan casefiles created prior to December 12, 2015 can continue to be underwritten through DU Version 9.2 under the existing MCM requirements. MCM loans in MBS must have pool issue dates on or before June 1, 2016, and whole loans must be purchased by Fannie Mae on or before June 30, 2016.

Homeownership Education and Housing Counseling

As part of the transition to HomeReady and with a focus on supporting sustainable homeownership, Fannie Mae re-examined the clarity and efficiency of its home-buyer education and counseling requirements. This policy update simplifies these requirements while helping to ensure that borrowers receive a consistent level of high quality homeownership education plus a referral to a HUD-approved counseling agency for one-on-one housing counseling, should they seek it.

With this update, Fannie Mae has adopted definitions for the terms “homeownership education” and “housing counseling,” based on definitions developed by HUD. The *Selling Guide* now distinguishes between mandatory homeownership education to be completed prior to loan closing and optional housing counseling provided by a HUD-approved counseling agency.

The designated provider of homeownership education for HomeReady applicants is Framework Homeownership LLC (Framework), which operates an online program available in English and Spanish. A \$75 fee charged by Framework allows the participant unlimited access to its program 24 hours a day, seven days a week. Framework also offers housing counseling referrals for borrowers seeking it, and access to post-purchase support. Post-purchase support includes the ability to connect with a counselor from a HUD-approved agency in the event of financial distress or hardship that may impact the borrower’s ability to make mortgage payments or meet other financial obligations.

One borrower on each HomeReady mortgage loan must complete the Framework program, pass the final test, and receive a certificate of completion. The same policy holds true for transactions in which borrowers rely solely on nontraditional credit—regardless of the mortgage product or home-buyer status.

In cases in which online education is not appropriate for a potential home buyer—such as the presence of a disability, a language barrier, or lack of Internet access—Framework will provide a referral to a HUD-approved counseling agency that can meet the home buyer’s needs. The counseling agency that handles the referral must provide a certificate of completion for homeownership education, and the lender must retain a copy of the certificate in the loan file.

For HomeReady loan applications dated on or before April 1, 2016, Fannie Mae will provide flexibility to lenders during a transition period in the event a borrower has completed in-person homeownership

education from a HUD-approved counseling agency within six months of the loan application date. The borrower must provide the required documentation (a certificate of completion from the provider).

HomeReady mortgage borrowers who become delinquent will be subject to early delinquency counseling. These requirements, as described in Fannie Mae's *Servicing Guide*, may be updated in the future.

Other Updated Selling Guide Topics

Please refer to Announcement SEL-2015-10

About the Author

Anna DeSimone is President and Founder of Bankers Advisory and Principal of CliftonLarsonAllen LLP. She can be reached at Anna@bankersadvisory.com

