HomeReady FAQs

Listed below are common questions about the features, requirements, and benefits of the HomeReady® mortgage, our low down payment mortgage product designed for creditworthy, low- to moderate-income borrowers, with expanded eligibility for financing homes in low-income communities. For details on the HomeReady required homeownership education, refer to the Homeownership Education FAQs. To navigate to a specific section, click on the links below.

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General

Q1. What are HomeReady's lender benefits?

HomeReady helps lenders confidently serve today's market of creditworthy, low- to moderate-income borrowers, with expanded eligibility for financing homes in low-income communities. HomeReady offers lenders

- Certainty: Underwrite with confidence – DU automatically identifies potential HomeReady eligible loans and provides a credit risk assessment.
- Competitive pricing: Get pricing that's better than or equal to our standard loan pricing. Take advantage of risk-based pricing waivers for LTV ratios > 80 percent with a credit score >= 680.
- Simplicity: Combine standard and HomeReady loans into MBS pools and whole loan commitments.
- Sustainability: Expand access to credit responsibly with homeownership education and advising options for borrowers.

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Q2. What are HomeReady's borrower benefits?

HomeReady serves low- to moderate-income borrowers, with expanded eligibility for financing homes low-income communities.

- HomeReady features pricing that is better than or equal to standard loan pricing.
- Lower than standard MI coverage requirements for loans with LTVs greater than 90 percent up to 97 percent.
- Cancellable monthly MI payments (per *Servicing Guide* policy; generally upon borrower request when the loan balance drops below 80 percent LTV, or automatically when it drops below 78 percent).

Gifts, grants, and Community Seconds® can be used as a source of funds for down payment and closing costs, with no minimum contribution required from the borrower's own funds (1-unit properties). Any eligible loan may have more than one Community Seconds (i.e., third lien) up to the maximum 105 percent CLTV (see Community Seconds fact sheet). Cash-on-hand can also be used for down payment and closing costs (1-unit properties).

Q3. May any Fannie Mae lender originate HomeReady mortgages?

Yes. HomeReady mortgages are available to all approved Fannie Mae sellers with details in the *Selling Guide*. Note, however, that use of the HomeStyle® Renovation product in conjunction with HomeReady requires that the lender be specifically approved by Fannie Mae to originate HomeStyle Renovation loans.

Q4. Has Fannie Mae targeted particular markets for HomeReady?

The HomeReady product is available nationwide and is designed to serve borrowers across the country. Borrower income eligibility, which differs by census tract, supports Fannie Mae's regulatory housing goals.

Q5. *Selling Guide* Announcement SEL-2016-06 states that entities such as banks with Community Reinvestment Act requirements or other institutions with regulatory commitments to provide funds for community development purposes may be eligible to provide lender-funded grants and down payment assistance on a case-by-case basis for HomeReady loans, provided such lender-funded grants are not funded through the mortgage transaction and are funded through a lender's own funds (e.g., the borrower is not charged a higher Note Rate to fund the assistance). How should a lender go about determining that a program will be acceptable to Fannie Mae?

Lenders must contact their Fannie Mae customer account team to discuss the possibility of obtaining a variance before originating any loans that have a lender-funded grant or down payment assistance. In addition to the requirements noted in the question above and outlined in the Announcement, to be considered for a variance, the lender must be a bank depository or credit union that is not already affiliated with a 501(c)(3) nonprofit organization that provides down payment assistance funds, unless the lender can provide strong compensating factors for further consideration.

Q6. Does HomeReady allow a limited cash-out refinance (LCOR) of a Fannie Mae to Fannie Mae loan up to a 97 percent LTV ratio?

HomeReady allows LCORs up to 97 percent LTV in DU; only for loans owned or securitized by Fannie Mae. Follow the standard guidelines per *Selling Guide* section B2-1.2-02.

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Income Eligibility

Q7. What are the income eligibility requirements for HomeReady borrowers?

Effective July 16, 2016, HomeReady income eligibility requirements were simplified to 100 percent of area median income (AMI) or no income limit (for low-income census tracts).

On the HomeReady page, the Income Eligibility Lookup tool provides lenders and other housing professionals with a quick and easy way to determine potential borrower eligibility. Simply use the tool to look up census tract income eligibility by property address or by Federal Information Processing Standards (FIPS) code. In addition, maps posted on the HomeReady page provide state-by-state eligibility snapshots. Eligibility by census tract is shown in the Income Eligibility by Census Tract Lookup, and income eligibility is identified in Desktop Underwriter® (DU®).

The table below shows the percentage of census tracts in each eligibility category.

Borrower Income Eligibility	Eligibility (Fannie Mae analysis using 2017 data)
No income limit: Properties in low-income census tracts	31% of census tracts
100% of AMI: All other properties	69% of census tracts

Source: AMIs are the basis for the income limits that are used in determining borrower eligibility for HomeReady mortgage loans.

Q8. How can lenders determine income eligibility for HomeReady?

For loan casefiles underwritten through DU, income eligibility is determined by DU. A field on the Additional Data screen in the Desktop Originator® (DO®)/DU User Interface gives lenders the ability to enter census tract information if DU is unable to standardize the property address.

When determining whether a mortgage is eligible under the borrower income limits, lenders must count the income from any borrowers listed on the mortgage note whose income is considered in evaluating creditworthiness for the mortgage loan.

The HomeReady Income Eligibility Lookup tool provides lenders and other housing professionals with a quick and easy way to determine potential borrower eligibility for HomeReady. Simply use the tool to look up census tract income eligibility by property address or by Federal Information Processing Standards (FIPS) code.

Also on the HomeReady page, an Income Eligibility by Census Tract Lookup (spreadsheet) is provided to allow lenders to check eligibility in advance of DU submission or to determine eligibility for manually underwritten loans. The property census tract is usually provided on the appraisal.

Eligibility and Underwriting

Q9. Can HomeReady loans be manually underwritten?

Yes, manual underwriting is allowed, although we expect the vast majority of loans to be underwritten through DU. Certain HomeReady transactions – such as LTV ratios exceeding 95 percent, manufactured housing, high-balance mortgage loans, and non-borrower household income – must be underwritten through DU.

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Q10. May borrowers have an ownership interest in other residential property at the time of loan closing?

Yes, effective July 26, 2016, borrower(s) who intend to occupy the property may have an ownership interest in other residential property at the time of loan closing.

Borrower Income and Assets

Q11. What borrower income flexibilities are unique to HomeReady?

Acceptable income sources permitted only for HomeReady loans include rental income from a 1-unit property with an accessory dwelling unit (such as a basement apartment) and boarder income (guidelines provide documentation flexibility).

Q12. Must the accessory unit be in compliance with local zoning requirements?

One-unit properties with accessory units are eligible for delivery to Fannie Mae, including instances in which the accessory unit does not comply with zoning requirements. The appraisal report must meet specified requirements. Refer to *Selling Guide* section B4-1.3-05 for details.

Q13. If the borrower is purchasing a 1-unit property with an accessory unit but does not have a lease to document rental income, what documentation can be used to determine the amount of rental income to be used for qualifying purposes?

Lenders may obtain a Fannie Mae Single-Family Comparable Rent Schedule (Form 1007) from the appraiser. Even though the form applies to a single-family investment property, Fannie Mae will accept the use of this form with an explanation from the appraiser that the estimated market rent is for the rental of an accessory unit on a 1-unit, principal residence property, and that the information reported on the form is specific to the accessory unit. Rental income used for qualifying purposes can then be calculated in accordance with *Selling Guide* section B3-3.1-08, Rental Income.

Q14. What documentation is required for boarder income?

For boarder income to be eligible, there must be documented evidence of prior shared residency for the most recent 12 months. The flexibility provided allows for documentation of the boarder income to be from at least nine of the most recent 12 months and averaged over 12 months. This is to provide support in instances where the boarder has lived with the borrower for 12 months, but is unable to provide a full 12 months' worth of documentation.

Q15. Are there any changes to the existing cash-on-hand documentation requirements?

There are no policy changes associated with the use of cash on hand. Cash on hand remains an acceptable source of funds for the borrower's down payment, closing costs and/or prepaid items. The lender must verify and document that the borrower customarily uses cash for expenses and that the amount of funds saved is consistent with the borrower's previous payment practices, and must follow other requirements of *Selling Guide* section B5-6-03. Using cash-on-hand as an asset in DU is permitted on HomeReady loan casefiles; this flexibility is exclusive to HomeReady mortgages.

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Nontraditional Credit

Q16. Is nontraditional credit permitted for HomeReady?

Borrowers with nontraditional credit are eligible for HomeReady, and can be underwritten manually or through DU. Refer to the *Selling Guide* for details.

Q17. How do we define nontraditional credit?

If a borrower has no credit score due to a lack of credit history with the credit repository, a nontraditional credit profile may be established.

Q18. What types of nontraditional credit are allowed?

For loans underwritten through DU:

- If at least one borrower has a credit score, no sources of nontraditional credit are required if the borrower with a credit score is contributing at least 50 percent of qualifying income. Otherwise, two sources of nontraditional credit are required for the borrower without a credit score (one of which must be housing-related).
- For underwriting through DU, if no borrower has a credit score, each borrower must have two sources of nontraditional credit and at least one must be housing-related.

For manual underwriting, an acceptable nontraditional credit profile must be established for each borrower without a credit score. A minimum of three sources of nontraditional credit are required for HomeReady loans. If a borrower does not have a housing-related source of credit, a minimum 12 months' of reserves are required.

Property Type

Q19. What is the maximum LTV ratio for 2- to 4-unit properties?

HomeReady eligibility for 2- to 4-unit properties (purchase or limited cash-out refinance) is aligned with standard eligibility (2-unit limited to 85 percent FRM or ARM; 3- to 4-unit limited to 75 percent FRM or ARM).

Q20. Is there a minimum contribution requirement for borrowers buying a 2- to 4-unit home?

There is a 3 percent minimum borrower contribution on 2- to 4-unit HomeReady properties with LTV ratios exceeding 80 percent. Standard business requires a 5 percent minimum borrower contribution. There is no minimum borrower contribution if the LTV is 80 percent or less on either HomeReady or standard business.

Q21. As with a 1-unit home, may rental income for 2- to 4-unit properties be used with a HomeReady mortgage?

Rental income may be used from a 2- to 4-unit property with HomeReady, as well as standard business. For HomeReady loans, rental income also may be used on a 1-unit property if there is an accessory unit (such as a basement apartment), and boarder income can be used for qualifying if there is an individual residing with the borrower who will continue to reside with the borrower in the subject property.

All eligibility criteria and requirements are subject to the formal terms and conditions of the Fannie Mae *Selling Guide*.
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Q22. Can a Community Seconds loan be used with a HomeReady loan secured by a manufactured home up to a 105 percent combined loan-to-value (CLTV) ratio?

A Community Seconds can be used in conjunction with a HomeReady loan secured by a manufactured home; however, the maximum LTV and CLTV ratios are limited to 95 percent. When HomeReady is combined with a manufactured home, the more restrictive eligibility applies. For example, the loan must be underwritten in DU (manufactured housing requirement), the maximum LTV and CLTV ratios are limited to 95 percent (manufactured housing requirement), the transaction is limited to a 1-unit principal residence (manufactured housing requirement), and the transaction must be a purchase or limited cash-out refinance (HomeReady requirement).

Q23. Are community land trusts eligible for HomeReady financing?

Yes. When used in combination with down payment assistance programs and community land trust properties, HomeReady creates a robust value proposition supporting affordable housing. For information on our community land trust guidelines, see the Community Land Trusts fact sheet. For more information on community land trusts, visit the National Community Land Trust Network.

DU Requirements

Q24. How does DU provide automated identification of loans potentially eligible for HomeReady?

Based on a comparison of the income limit for the area in which the property is located and the total qualifying income on the loan casefile, DU notifies users when a loan casefile appears to be eligible for HomeReady but the lender has not underwritten the loan casefile as HomeReady. The lender would then need to resubmit the loan casefile as a HomeReady loan to obtain the appropriate HomeReady messaging.

Q25. How does DU underwrite a HomeReady loan casefile using non-borrower household income?

"Non-Borrower Household Income" is an Other Income type in DU. This income is not included as qualifying income and does not impact the DTI used in the risk assessment or displayed on the DU Underwriting Findings report. However, if the non-borrower household income is 30 percent or more of the total qualifying income on the loan casefile, DU considers the presence of the income a compensating factor and allows a DTI ratio greater than 45 percent, up to 50 percent.

See Q14 and Q23 for additional details.

Q26. Does DU specify when a loan casefile is *not* eligible for HomeReady?

When the lender selects HomeReady as the Community Lending product in DU and the loan casefile receives an Ineligible recommendation, DU issues a message specifying the reason the loan casefile is ineligible.

Q27. When and how should the FIPS code be entered?

Lenders may use the FIPSCodeIdentifier field in DU to provide the Federal Information Processing Standard Code – or FIPS code – which is a unique code assigned to all geographic areas. The first two digits of the FIPS code indicate the state number; the next three, the county number; and the last six indicate the census tract number. For example, the FIPS code for 3900 Wisconsin Ave. NW, Washington, DC, is 11001001002 (State code 11, county code 001, and census tract 001002).

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Enter all 11 digits of the FIPS code, with no periods, spaces, or dashes.

The FIPS code is not required, but it can be used if DU is unable to determine the census tract. When the FIPS code is provided, DU uses that census tract to determine the AMI to be used in the income eligibility determination.

Mortgage Insurance

Q28. What are the MI coverage requirements for HomeReady?

Standard MI coverage is required on HomeReady loans with LTV ratios at or below 90 percent, and 25 percent coverage is required for LTV ratios exceeding 90 percent, which is lower than Fannie Mae's standard MI coverage levels of 30 percent for LTV ratios of 90.01–95.00 percent and 35 percent for LTV ratios of 95.01–97.00 percent that apply to most loans.

The MI coverage levels for HomeReady were specifically designed to work in conjunction with the use of the lender's standard base guaranty fee and the loan-level price adjustment (LLPA) structure with certain waivers and caps.

Q29. Can lenders use the Minimum MI Coverage Option with HomeReady?

Yes, the Minimum MI Coverage Option (see the LLPA Matrix) may be used, but the LLPAs associated with it are not waived or considered toward the LLPA cap for HomeReady loans.

Pricing

Q30. What is the HomeReady pricing structure?

HomeReady pricing uses the lender's base guaranty fee. LLPAs are waived for HomeReady loans that have an LTV ratio greater than 80 percent and a credit score of 680 or higher. For other HomeReady loans, Fannie Mae's standard LLPAs apply, with a cap of 1.50%. (The Minimum MI coverage option LLPA is not waived if that option is used.)

Committing and Delivery

Q31. Do lenders need to deliver HomeReady loans into separate MBS contracts?

No, lenders can commingle standard and HomeReady loans into MBS pools and whole loan commitments.

Q32. Do lenders need to take down a separate whole loan commitment for HomeReady loans?

No, HomeReady has no separate whole loan committing product/pricing grids. Refer to the HomeReady product matrix for more information.

Q33. Are there limits on the percentage of HomeReady loans that can be delivered into an MBS pool or against a whole loan commitment?

No. There is no limit on the percentage of HomeReady loans that can be delivered.

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Q34. How are HomeReady loans identified at delivery?

When delivering a HomeReady loan in Loan Delivery, you must provide special feature code (SFC) 900. In addition, as part of the delivery data for the HomeReady product, lenders need to ensure that ULDD Sort ID 238 – LoanAffordableIndicator – is set to “True,” for any mortgage where the borrower completes homeownership education through Framework or housing counseling through any HUD-approved agency. ULDD Sort ID 576 must be set to “HUD Approved Counseling Agency,” and ULDD Sort ID 578 must be set to “HomeStudy” if the borrower completed the Framework online course, or set to “Individual” if the borrower completed counseling through a HUD-approved agency.

Homeownership Education

(Note: Refer to the separate homeownership education FAQs for more details.)

Q35. What are the homeownership education requirements for HomeReady loans?

At least one borrower on each HomeReady purchase transaction must complete the Framework® online education program (see exceptions below). The Framework course, available in English and Spanish, meets or exceeds industry standards and consistently receives high marks from learners.

Exceptions:

- For HomeReady loans that involve a Community Seconds® or down payment assistance program, buyers may instead complete the homeownership education course or counseling required by the Community Seconds® or down payment assistance program as long as it is provided by a HUD-approved agency and completed prior to closing.
- The presence of a disability, lack of Internet access, and other issues may indicate that a consumer is better served through other education modes (for example, in-person classroom education or via a telephone conference call). In such cases, lenders should direct buyers to Framework’s toll-free customer service line (855-659-2267), which can refer consumers to a HUD-approved counseling agency.
- Finally, buyers who have already completed housing counseling prior to entering into a sales contract (as evidenced by a completed Fannie Mae Form 1017) are not required to complete the Framework course.

Fannie Mae believes that access to high-quality education and counseling can provide the borrower with the additional information and resources to make informed decisions that support long-term homeownership sustainability. For more information, refer to the homeownership education FAQs.

Q36. May the lender rebate the $75 homeownership education cost for the Framework course to the borrower?

Lenders may choose to provide a credit against closing costs in accordance with our existing *Selling Guide* policies. See “Lender Incentives for Borrowers” in *Selling Guide* section B3-4.1-02, Interested Party Contributions (Lender Incentives for Borrowers).

Framework offers lenders, real estate agents, or other parties the option of purchasing one or multiple coupon codes to provide to customers who plan to take the Framework course. Coupons can cover the entire $75 course fee or just a portion of the course cost. To purchase coupons, visit Framework's coupon store at http://store.frameworkhomeownership.org.

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Q37. Do lenders need to have the Borrower's Authorization for Counseling form signed at closing for HomeReady loans?

No. The requirement to have the Borrower's Authorization for Counseling form signed at closing was removed from the *Selling Guide* in December 2015 (SEL-2015-13).

Servicing

Q38. Are there any specific servicing requirements for HomeReady?

No. In June 2016, Fannie Mae updated our servicing policies to eliminate requirements unique to community lending mortgage loans (see *Servicing Guide* Announcement SVC-2016-05). HomeReady mortgage loans must be serviced in accordance with policies for all other Fannie Mae non-government conventional mortgage loans. These include the servicer's requirement to provide information on and, when appropriate refer borrowers to, programs that may assist in resolving their delinquencies or housing counseling agencies that may help them in their debt management.

Q39. Can a servicer refer a borrower to the Framework network housing counselor if the borrower requests housing counseling?

Yes. Fannie Mae requires that housing counseling be provided by a HUD-approved counseling agency, and the Framework network of housing counselors meets that standard. HomeReady borrowers should be reminded of the housing counseling resources available to them, including the Framework network, throughout the life of their mortgage loan. For more information on Framework, the servicer should refer to the homeownership education FAQs.

> NOTE: *The DU allowance of a maximum DTI of up to 50 percent and the $500 LLPA credit applies only when a buyer completes counseling prior to entering into a sales contract.*

Lender Resources

Q40. What resources and training are available for lenders?

Many lender resources are available on the HomeReady web page, including the following:

- Product matrix, loan officer fact sheet, general FAQs, and Homeownership Education and Housing Counseling FAQs
- HomeReady Income Eligibility Lookup tool, which provides lenders and other housing professionals with a quick and easy way to determine potential eligibility for HomeReady by property address or by Federal Information Processing Standards (FIPS) code
- HomeReady income flexibility fact sheets, including sample borrower scenarios
- An eLearning overview course and eLearning training for loan officers, available 24/7
- Customizable marketing materials, in English and Spanish, to help you promote HomeReady to your customers and business partners

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