

HomeReady™ Mortgage

Low down payment financing for low- and moderate-income borrowers

BACKGROUND AND PURPOSE

The HomeReady™ Mortgage (HomeReady) program helps lenders serve today's market of creditworthy, low- and moderate-income (LMI) borrowers, and encourages the financing of homes in designated low-income, minority,¹⁵ and disaster-impacted communities. HomeReady offers high loan-to-value (LTV) ratio financing to help homebuyers who would otherwise qualify for a mortgage but may not have the resources for a larger down payment. HomeReady mortgages offer low rates, minimal risk-based price adjustments compared to other programs, and reduced mortgage insurance costs.

BORROWER CRITERIA

Income limits: Borrower income must be below 100 percent of the area median income (AMI), with some exceptions based on the property's location.

There is no income limit on properties in low-income census tracts.

Credit: HomeReady allows for nontraditional credit. Credit scores as low as 620 are permitted. This limit is revised annually. For manual underwriting, there is a minimum credit score of 660 for one-unit properties and a credit score minimum of 680 for two- to four-unit properties. Risk-based pricing is waived in some instances based on credit score. Fannie Mae also uses trended data in its credit risk assessment including those loans submitted through Desktop Underwriter®. Trended credit data provides expanded information on a borrower's revolving account credit history including whether the borrower pays off the balance each month or makes the minimum payment due, and whether the borrower exceeds the credit limit.

PROGRAM NAME	HomeReady™ Mortgage
AGENCY	Fannie Mae
EXPIRATION DATE	Not Applicable
APPLICATIONS	No program-specific application is required. For information on becoming a Fannie Mae seller, see https://www.fanniemae.com/singlefamily/become-seller-servicer
WEB LINK	https://www.fanniemae.com/singlefamily/homeready
CONTACT INFORMATION	Sellerservicer_application@fanniemae.com (ask for a call-back in your email)
APPLICATION PERIOD	Continuous
GEOGRAPHIC SCOPE	National; higher income limits for low-income, minority, and disaster area designated census tracts.

First-time homebuyers: Allowed, but does not confer a special benefit.

Occupancy and ownership of other properties: Only single-unit, owner-occupied primary residences are allowed. Occupant and non-occupant borrower(s) may have an ownership interest in other residential property at the time of closing.

Special populations: Public servants (police, firefighters, health care workers, teachers, etc.) and military personnel may access special flexibilities, such as use of overtime and part-time income to qualify. These loans no longer require manual underwriting.

Special assistance for persons with disabilities: HomeReady incorporates many underwriting flexibilities for persons with disabilities, such as using a nonresident co-borrower, and offers them to any borrower as part of automatic underwriting.

Property type: Single-family homes of one- to four-units, condominiums, townhomes, and planned unit developments are allowed. Manufactured housing mortgages are allowed with an LTV up to 95 percent. HomeReady offers flexibilities for extended family households, such as permitting rental income from an ancillary dwelling unit or boarder.

LOAN CRITERIA

Loan limits: FHFA publishes Fannie Mae's conforming loan limits annually. See Resources for a link to the current limits.

Loan-to-value limits: Up to 97 percent LTV allowed. Use of Desktop Underwriter® is required for LTVs greater than 95 percent.

Adjustable-rate mortgages: The following ARMs are allowed: 5/1 with 2/2/5 caps only, and 7/1 and 10/1 with caps that vary according to Fannie Mae's standard ARM matrix.

Down payment sources: Allowable sources include gifts, grants, Community Seconds®,¹⁶ and cash on hand. There is no minimum requirement from the borrower's own funds.

Homeownership counseling: Comprehensive homeownership education is required for all borrowers through an online course provided by Framework®, a HUD-approved social enterprise run by the Housing Partnership Network. Borrowers will invest four to six hours (average) of their time and a fee of \$75 (paid to Framework®) to learn the fundamentals of buying and owning a home, take an online test, and receive

¹⁵ According to 12 USC § 4502 (29), the term minority census tract means "a census tract that has a minority population of at least 30 percent and a median family income of less than 100 percent of the area family median income."

¹⁶ A Community Seconds® mortgage is a subordinate mortgage that is used in connection with a first mortgage delivered to Fannie Mae. Fannie Mae does not purchase Community Seconds, but it does provide eligibility requirements for the subordinate Community Seconds product. See fact sheet at https://www.fanniemae.com/content/fact_sheet/community-seconds-fact-sheet.pdf.

POTENTIAL BENEFITS

The HomeReady™ Mortgage program may allow community banks to expand their customer base by serving more low- and moderate-income borrowers, low- and moderate-income census tracts, high-minority census tracts, and designated disaster areas.

HomeReady may help community banks access the secondary market, providing greater liquidity to enhance their lending volume.

Loans originated through HomeReady may receive favorable consideration under the CRA because the program is targeted for use in LMI communities or by LMI borrowers.

POTENTIAL CHALLENGES

Lenders must have a way to access the program, whether through direct sales or a correspondent arrangement, as discussed in the introduction to this section. Depending on the arrangement, community banks may need to acquire or develop new expertise and infrastructure in order to participate.

This program has maximum income requirements and other borrower and loan characteristics, which could limit the pool of borrowers.

a certificate of completion. To promote further sustainability, borrowers will have access to post-purchase homeownership support for the life of the loan through Framework's® homeownership advisor service. Alternatively, some borrowers can meet the education requirement by attending customized one-on-one counseling by a HUD-approved counseling agency. Lenders can receive a \$500 loan-level price adjustment credit where HomeReady borrowers have attended approved counseling services before entering into a sales contract. See How to Fulfill the Homeownership Education Requirement for HomeReady® Mortgage in Resources for more details.

Loan-level price adjustments: Loan-level price adjustments are risk-based pricing adjustments that apply at the time of delivery only. Standard risk-based pricing is waived for HomeReady loans with LTVs less than 80 percent and a credit score of 680 or greater. A risk-based, loan-level price adjustment cap of 150 basis points applies for loans outside of these parameters.

Mortgage insurance: HomeReady features a reduced mortgage insurance coverage requirement for loans above 90 percent LTV. Mortgage insurance is cancellable.

Debt-to-income ratio: Determined by Desktop Underwriter®. Income from a non-borrower household member may be considered as a compensating factor in DU to allow for a debt-to-income (DTI) ratio up to 50 percent. HomeReady allows non-occupant borrowers, such as a parent. In the event that the borrower has student loan debt, if the payment amount is provided on the credit report, that amount can be used for qualifying purposes. If the credit report does not identify a payment amount, the lender can use either 1 percent of the outstanding student loan balance, or a calculated payment that will fully amortize the loan based on documented loan repayment terms.

Temporary interest rate buy downs: Temporary interest rate buy downs are permitted.

Refinance: Limited cash-out refinance up to 95 percent LTV is an eligible use of this product.

Potential Benefits

- The HomeReady™ Mortgage program may allow community banks to expand their customer base by serving more low- and moderate-income borrowers, low- and moderate-income census tracts, high-minority census tracts, and designated disaster areas.
- HomeReady may help community banks access the secondary market, providing greater liquidity to enhance their lending volume.
- The guarantee provided by Fannie Mae under this program may help reduce exposure to credit risk.
- Loans originated through HomeReady may receive favorable consideration under the CRA because the program is targeted for use in LMI communities or by LMI borrowers.

Potential Challenges

- Lenders must have a way to access the program, whether through direct sales or a correspondent arrangement, as discussed in the introduction to this section. Depending on the arrangement, community banks may need to acquire or develop new expertise and infrastructure in order to participate.
- This program has maximum income requirements and other borrower and loan characteristics, which could limit the pool of borrowers.

SIMILAR PROGRAMS

- FHA 203(b) Mortgage Insurance Program
- Freddie Mac Home Possible®

RESOURCES

Direct access to the following web links can be found at <https://www.fdic.gov/mortgagelending>.

More information on the HomeReady® Mortgage program

<https://www.fanniemae.com/singlefamily/homeready>

Fannie Mae standard ARM matrix

https://www.fanniemae.com/content/eligibility_information/arm-matrix.pdf

HomeReady® Income Limits

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

FHFA Conforming Loan Limits

<https://www.fanniemae.com/singlefamily/loan-limits>

How to Fulfill the Homeownership Education Requirement for HomeReady® Mortgage

https://www.fanniemae.com/content/fact_sheet/homeready-education-requirement.pdf

Community Seconds®

https://www.fanniemae.com/content/fact_sheet/community-seconds-fact-sheet.pdf

Selling requirements

<https://www.fanniemae.com/content/guide/selling/b5/6/03.html>

HUD-approved counselors by state

(Click on state and scroll to the bottom of the page.)

<https://www.fdic.gov/consumers/community/mortgagelending/map.html>