# Standard 97 Percent Loan-to-Value Mortgage

# Low down payment financing for first-time homebuyers

### **BACKGROUND AND PURPOSE**

According to consumer research conducted by Fannie Mae, the primary barrier to homeownership for firsttime homebuyers is saving money for the down payment and closing costs. In support of ongoing efforts to expand access to credit and support sustainable homeownership, Fannie Mae offers 97 percent loan-to-value (LTV) financing to help homebuyers who would otherwise qualify for a mortgage but may not have the resources for a larger down payment. These options are designed to help lenders serve creditworthy borrowers and expand business opportunities.

The maximum LTV ratio for Fannie Mae's standard mortgage product is up to 97 percent for first-time homebuyers, allowing first-time borrowers who exceed the HomeReady™ Mortgage income limit to still buy a home with as little as 3 percent down. One major difference is that the risk-based fee to Fannie Mae, known

as the loan-level price adjustment (LLPA), is based on the borrower's credit score and the amount of private mortgage insurance the borrower elects to purchase. Borrowers with certain risk factors must demonstrate other compensating factors to be approved for a loan. Fannie Mae eliminated risk factors that could affect homeowners' sustainability, including low-documentation loans, interest-only loans, 40-year terms, and credit scores lower than 620.

### **BORROWER CRITERIA**

**Income limits:** This program has no income limits.

Credit: This program uses standard risk-based loanlevel price adjustments that are based on credit. Fannie Mae uses trended data in its credit risk assessment including those loans submitted through Desktop

PROGRAM NAME	Standard 97 Percent Loan-to-Value Mortgage
AGENCY	Fannie Mae
EXPIRATION DATE	Not Applicable
APPLICATIONS	No program-specific application is required. For information on becoming a Fannie Mae seller, see <a href="https://www.fanniemae.com/singlefamily/become-seller-servicer">https://www.fanniemae.com/singlefamily/become-seller-servicer</a>
WEB LINK	https://www.fanniemae.com/singlefamily/97-ltv-options
WEB LINK  CONTACT INFORMATION	https://www.fanniemae.com/singlefamily/97-ltv-options  Sellerservicer_application@fanniemae.com (ask for a call-back in your email)
CONTACT	

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.

First-time homebuyers: For purchase transactions, at least one borrower must be a first-time homebuyer (no ownership interest in other residential properties for the last three years). The first-time homebuyer requirement is waived for limited cash-out refinances.

Occupancy and ownership of other properties: This program is intended for first-time homebuyers; however, a co-borrower could own other property. The dwelling must be the borrower's primary residence.

Special populations: This program does not provide special benefits for members of certain populations.

Special assistance for persons with disabilities: This program does not provide special benefits for people with disabilities.

Property type: Single-family homes of one- to four-units, condominiums, and planned unit developments are eligible. Manufactured housing is not eligible.

#### **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: The LTV limit is 97 percent, or up to 105 percent with a Community Seconds®17 subordinate lien. It may not be combined with a HomeStyle® Renovation Loan or high-balance loans.

Adjustable-rate mortgages: Loans under this program may not be ARMs.

**Down payment sources:** This program follows Fannie Mae's standard for borrower contribution, which for a one-unit purchase transaction is zero. Gifts, grants, Community Seconds®, and other down payment assistance programs, and the borrower's own funds are all eligible sources.

Homeownership counseling: Homeownership counseling is not required, but recommended.

Loan-level price adjustments: Loan-level price adjustments are riskbased pricing adjustments that apply at the time of delivery only. This program is subject to standard Fannie Mae risk-based LLPAs dependent on credit scores.

### POTENTIAL BENEFITS

The quarantee provided by Fannie Mae under this program may limit exposure to credit risk.

Loans originated through Fannie Mae's Standard 97 Percent Loanto-Value may receive favorable consideration under the CRA, depending on the geography or income of the participat ing borrowers.

# POTENTIAL CHALLENGES

Lenders must have a way to access the program, whether through direct sales or a cor respondent 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.

The program may not be the best fit for many low- and moderateincome borrowers; there are alternatives such as the more targeted GSE programs. The Federal Housing Administration or the U.S. Department of Agriculture may have more appropriate programs, depend ing on the incomes, available down payment resources, and credit histories of the applicants.

<sup>&</sup>lt;sup>17</sup> 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.

Mortgage insurance: Unlike the HomeReady™ Mortgage program, borrowers have two insurance coverage level options: standard coverage of 35 percent and minimum coverage of 18 percent with corresponding LLPAs. Lenders that choose less than standard coverage (but no lower than minimum coverage) are assessed an LLPA based on the LTV ratio (95.01 percent to 97.00 percent) and representative credit score.

**Debt-to-income ratio:** Determined by Desktop Underwriter®. 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 allowed, provided that the rate reduction does not exceed 3 percent, and the rate increase will not exceed 1 percent per year. When the source of the buy-down funds is an interested party to the property sale or purchase transaction, Fannie Mae's interested-party contribution limits apply. When underwriting mortgage loans that have a temporary interest rate buy-down, the lender must qualify the borrower based on the note rate without consideration of the buy-down rate.

Refinance: Limited cash-out refinance is an eligible use of this product. Fannie Mae's standard policies for limited cash-out refinances apply. The first-time homebuyer requirement is waived. The lender must document that the existing loan being refinanced is owned (or securitized) by Fannie Mae. Documentation may come from the lender's servicing system, the current servicer, Fannie Mae's Loan Lookup tool, or any other source as confirmed by the lender.

**Underwriting:** Desktop Underwriter® only; manual underwriting is not allowed.

### **Potential Benefits**

• The guarantee provided by Fannie Mae under this program may limit exposure to credit risk.

- Loans originated through Fannie Mae's Standard 97 Percent Loan-to-Value may receive favorable consideration under the CRA, depending on the geography or income of the participating borrowers.
- Fannie Mae's Standard 97 Percent Loan-to-Value Mortgage may allow community banks to expand their customer base in low- and moderateincome communities.
- Fannie Mae's Standard 97 Percent Loan-to-Value Mortgage may help community banks access the secondary market, providing greater liquidity to enhance their lending volume.

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- The program may not be the best fit for many low- and moderate-income borrowers; there are alternatives such as the more targeted GSE programs. The Federal Housing Administration or the U.S. Department of Agriculture may have more appropriate programs, depending on the incomes, available down payment resources, and credit histories of the applicants.

## SIMILAR PROGRAMS

- Fannie Mae HomeReady™ Mortgage
- FHA 203(b) Mortgage Insurance Program

## **RESOURCES**

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

### Fannie Mae's interested-party contribution limits

https://www.fanniemae.com/content/guide/selling/b3/4.1/02.html

# Loan-level price adjustment matrix

https://www.fanniemae.com/content/pricing/llpa-matrix.pdf

# Fannie Mae's Loan Lookup tool

https://knowyouroptions.com/loanlookup

# **FHFA Conforming loan limits**

http://www.fhfa.gov/DataTools/Downloads/Pages/Conforming-Loan-Limits.aspx

# Community Seconds®

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