Fannie Mae

FAQs
97% LTV Options for Purchases and Limited Cash-Out Refinances of Fannie Mae Loans

In support of ongoing efforts to expand access to credit and to support sustainable homeownership, Fannie Mae offers 97% loan-to-value (LTV), combined LTV (CLTV), and home equity CLTV (HCLTV) ratios for the following principal residence transactions:

- HomeReady® purchase transactions,
- standard purchase transactions if at least one borrower is a first-time home buyer, and
- HomeReady and standard limited cash-out refinances of existing Fannie Mae loans.

All loans must be fixed-rate and secured by a 1-unit principal residence. Manufactured housing is not permitted. All loans must be underwritten through Desktop Underwriter® (DU®). Listed below are common questions on the features and requirements of the 97% LTV Option. To navigate to a specific section, click on the links below. See also HomeReady webpage and FAQs.

Contents

General

Q1. Are 97% LTV loans at greater risk of default than loans with higher down payments?

Borrower equity and LTV ratio are both important factors when determining the borrower's ability to repay the mortgage in support of sustainable homeownership. Our analysis indicates that there is minimal difference in default risk for loans with LTV ratios greater than 90% up to 95% compared to those with LTV ratios greater than 95% up to 97%.

All loans with LTV ratios greater than 95% up to 97% are required to be underwritten through DU, our proven risk management tool. DU conducts a comprehensive risk assessment of all aspects of the transaction, including the LTV, to provide an underwriting recommendation. Loans with certain risk factors, such as a high LTV, must demonstrate other compensating factors to achieve an Approve recommendation. The use of DU allows Fannie Mae to provide the broadest eligibility to creditworthy borrowers while continuing to support sustainable homeownership.

> **NOTE:** *Fannie Mae previously stopped purchasing loans with other risk factors that could impact sustainability, including low-documentation loans, interest-only loans, 40-year terms, and credit scores lower than 620.*

Q2. What property types are eligible for the 97% LTV option?

The property must be a one-unit principal residence, including condos, co-ops, and planned unit developments (PUDs). Manufactured housing is not permitted.

Q3. What loan types and terms are permitted?

The maximum LTV of 97% is offered only for fixed-rate mortgages with a term up to 30 years; adjustable-rate mortgages and high-balance loans are not eligible for 97% financing and remain subject to the maximum LTV requirements per the *Eligibility Matrix*.

Q4. Are there any special feature codes (SFCs) or other special delivery requirements for loans with the 97% LTV option?

Lenders must continue to deliver all applicable SFCs, including, but not limited to:

- SFC 127, Desktop Underwriter® (DU®) Loan (required for all 97% LTV loans)
- SFC 900 for HomeReady transactions

Other SFCs may apply. View the SFC list.

Purchase Transactions – 97% LTV Options

Q5. Does Fannie Mae restrict purchase transactions with LTV ratios greater than 95% to only those including a first-time home buyer?

Our HomeReady mortgage does not require that borrowers be first-time home buyers. Fannie Mae standard transactions using 97% LTV financing, however, must have at least one borrower who is a first-time home buyer.

Q6. Are there differences in eligibility or requirements between HomeReady and Fannie Mae standard purchase transactions above 95%, up to 97%, LTV?

Yes, several differences for purchase transactions are summarized below.

	HomeReady 97% LTV	Fannie Mae Standard 97% LTV
First-time home buyer requirements	None	At least one borrower must be a first-time home buyer
Income limits	No limits in low-income census tracts; 100% of AMI in all other areas.	No limits
MI coverage	25% MI coverage for LTV ratios of 90.01–97%; standard MI coverage for LTV ratios of 90% or less. Minimum MI coverage may be used, subject to loan-level price adjustment (LLPA) for Minimum MI.	Standard MI coverage; or Minimum MI coverage may be used, subject to LLPA for Minimum MI

	HomeReady 97% LTV	Fannie Mae Standard 97% LTV
Homeownership education and housing counseling	Required homeownership education; an online course is provided through Framework; borrowers also have other options to fulfill this requirement (see Q8 for details).	Not required
Pricing	**Standard risk-based pricing waived** for LTV ratios >80% with a credit score >=680 (risk-based LLPA cap of 1.50% applies for loans outside of these parameters). Note that any Minimum MI LLPA is not subject to the cap and will be required if the Minimum MI coverage is selected.	Standard risk-based LLPAs (based on loan risk characteristics)

Note: This table summarizes the differences between the HomeReady and Fannie Mae standard 97% LTV options for purchase transactions. All HomeReady and Fannie Mae standard requirements apply per the Selling Guide*.*

Definitions: AMI: area median income; first-time home buyer: At least one buyer must not have owned any residential property in the past three years (see the Selling Guide Glossary *for the full definition); homeownership education and housing counseling: See* Selling Guide *section B2-2-06; LLPA: loan-level price adjustment; MI: mortgage insurance.*

Q7. What are the details of the homeownership education and housing counseling requirements for HomeReady?

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 to the Framework course:

- 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, or other situations 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.
- Buyers who have already received housing counseling from a HUD-approved agency prior to entering into a sales contract, as evidenced by a signed Certificate of Completion of Housing Counseling (Form 1017), are not required to complete the Framework course. In addition, lenders will receive a $500 LLPA credit when borrowers complete counseling prior to execution of the sales contract.

Q8. What are eligible sources for the borrower's minimum contribution, including down payment (3%), closing costs, and reserves (if required)?

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 is also an eligible source of funds for a HomeReady transaction.

Limited Cash-Out Refinance Transactions – 97% Option for Loans Owned or Securitized by Fannie Mae

Q9. For the limited cash-out refinance (LCOR) 97% option, how must the lender verify that the existing loan meets the requirement of being owned or securitized by Fannie Mae?

The lender is responsible for verifying that the existing mortgage is currently owned or securitized by Fannie Mae. Documentation may come from:

- The lender's servicing system (if the lender is the servicer of the existing mortgage); or
- The current servicer (if the lender is not the servicer); or
- A printout from Fannie Mae's Loan Lookup tool, if a match is identified; or
- Any other source as confirmed by the lender.

Documentation should provide some validation that the loan is currently owned or securitized by Fannie Mae, such as the Fannie Mae loan number for the existing mortgage loan.

Q10. What data must be entered in DU to indicate the existing mortgage is owned or securitized by Fannie Mae?

Lenders must inform DU that Fannie Mae owns the existing mortgage by indicating Fannie Mae in the "Owner of Existing Mortgage" field in the online loan application. In the Desktop Originator® (DO®)/DU User Interface), this field is located on the Additional Data screen in the Full 1003. Because this indication will be used by DU to determine eligibility of the loan for delivery to Fannie Mae when the LTV, CLTV, or HCLTV ratios exceed 95%, the lender will be required to document that the loan being refinanced is currently owned by Fannie Mae.

Q11. Can an LCOR with an LTV greater that 95%, up to 97%, be delivered as a HomeReady loan?

Yes. LCOR eligibility up to 97% is available under both our standard and HomeReady guidelines.