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OVERVIEW	The HomeReady mortgage is a conventional community lending mortgage that offers underwriting flexibilities to qualified borrowers who meet specific income criteria.
PRODUCT CODES	• CF30HRFN • CF15HRFN • CF30HRLPMI • CF15HRLPMI
ACCESSORY UNIT INCOME	• Income generated from an accessory unit can be considered as rental income under HomeReady guidelines. Refer to Fannie Mae rental income B3-3.1-08, Rental Income in the Fannie Mae Selling Guide. • Accessory unit rental income may be underwritten in DU. • An accessory dwelling unit is typically an additional living area independent of the primary dwelling unit, and includes a fully functioning kitchen and bathroom. Additional information related to accessory units refer to Fannie Mae section B4-1.3-05 Improvements Section of the Appraisal Report. **Note:** If the borrower does not have a lease to document rental income, underwriter may obtain a Fannie Mae Single Family Comparable Rent Schedule (Form 1007) from the appraiser. Although 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 form is specific to the accessory unit.
BOARDER INCOME	• The rental payments that any borrower receives from one or more individuals who reside with the borrower (but who are not obligated on the mortgage debt and may or may not be related to the borrower) may be considered as acceptable stable income. This applies for a one-unit property in an amount up to 30% of the total gross income that is used to qualify the borrower for the mortgage if: o The individual(s) has lived with (and paid rent to) the borrower for the last 12 months. o The boarder can provide appropriate documentation to demonstrate a history of shared residency (such as a copy of a driver’s license, bill or bank statement that shows the boarder’s address as being the same as the borrower’s address). o The boarder can demonstrate (such as copies of canceled checks) the payment of rental payments to the borrower for ▪ The last 12 months, or ▪ At least 9 of the most recent 12 months provided the rental income is averaged over a 12-month period. • Payment of rent by the boarder directly to a third party is not acceptable.

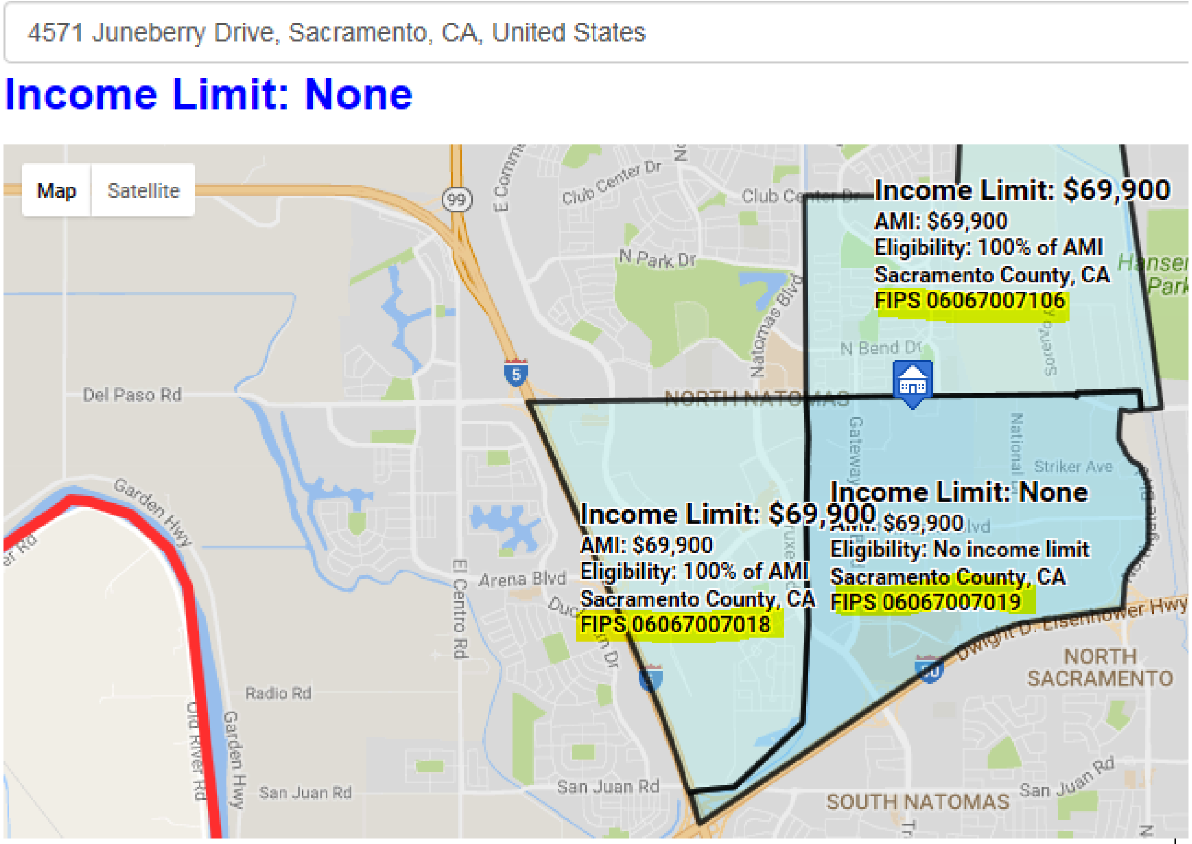
BORROWER INCOME LIMITS AND CALCULATIONS

- In determining whether a mortgage is eligible under the borrower income limits, the underwriter must count the income from all of the borrowers who will sign the mortgage note, to the extent that the income is considered in evaluating creditworthiness for the mortgage loan.
- The Underwriter must use the same methodology in determining income eligibility for a HomeReady mortgage as the underwriter uses in reporting “Monthly Income” in data delivery. Eligibility for a HomeReady mortgage loan compares the borrower’s income to the applicable area median income (AMI) for the property’s location.
- For determining Fannie Mae loan eligibility, underwriters must refer to the AMIs that Fannie Mae uses in Desktop Underwriter or on Fannie Mae’s website, and may not rely on other published versions (such as AMIs posted on huduser.org).
- To be eligible as a HomeReady mortgage, the total annual qualifying income may not exceed 100% of the AMI for the property’s location. However, there is no income limit for properties located in low-income census tracts, defined as those census tracts where the median tract income is no greater than 80% AMI.

Note: For loan casefiles that are not underwritten as a HomeReady mortgage loan, DU will issue a message indicating that the loan may be eligible as a HomeReady loan if the total qualifying income entered in DU appears to be within the applicable AMI limit or the property is located within a low-income census tract. See B5-6-03, HomeReady Mortgage Underwriting Methods and Requirements, for additional information.

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

- FIPS Code is required in the income limit section of DU



4571 Juneberry Drive, Sacramento, CA, United States

Income Limit: None

Income Limit: $69,900
AMI: $69,900
Eligibility: 100% of AMI
Sacramento County, CA
FIPS 06067007106

Income Limit: $69,900
AMI: $69,900
Eligibility: 100% of AMI
Sacramento County, CA
FIPS 06067007018

Income Limit: None
AMI: $69,900
Eligibility: No income limit
Sacramento County, CA
FIPS 06067007019

BORROWERS WITHOUT CREDIT SCORES: DU LOAN CASEFILES	• Underwriters can use DU to underwrite loan casefiles for borrowers who do not have traditional credit and credit scores if at least one other borrower on the loan application has one or more credit scores: o The Underwriters can use DU to underwrite the loan casefiles for borrowers who do not have traditional credit and credit scores if at least one other borrower on the loan application has one or more credit score. • DU Loan Casefiles: Co-borrowers Without Credit Scores Underwriters can use DU to underwrite loan casefiles for borrowers who do not have traditional credit and credit scores if at least one other borrower on the loan application has one or more credit scores and all of the following conditions are met: o The property must be a one-unit, principal residence, and all borrowers will occupy the property. o The transaction must be a purchase or limited cash-out refinance. o The loan amount must meet the general loan limits-high-balance mortgage loans are not eligible. o The income used to qualify the borrowers cannot come from self-employment. o The borrower(s) with traditional credit and a credit score(s) must contribute more than 50% of the qualifying income. **Note**: The above criteria apply to mortgage loans without regard to the HomeReady product.
CASH-ON-HAND	• Underwriter may approve purchase money mortgages for one-unit properties with cash-on-hand as an acceptable source of funds for the borrower's down payment, funds for closing costs, and prepaid items. **Note:** Cash-on-hand may not be used to find the borrower's reserve requirement, if applicable. • The Underwriter must verify and document the following with respect to the cash-on-hand funds: o The borrower customarily uses cash for expenses, and the amount of funds saved is consistent with the borrower's previous payment practices. o The underwriter must verify that funds for the down payment and closing cost exist in a financial institution account or an acceptable escrow account. Funds must be on deposit at the time of application, or no less than 30 days prior to the closing. o The underwriter must obtain a written statement from the borrower that discloses the source of funds and states that the funds have not been borrowed. o The borrower's credit report and other verifications should indicate limited or no use of credit and limited or no depository relationship between the borrower and a financial institution.
ELIGIBLE LOAN TYPES	• One-and two-unit properties can be secured by fixed-rate loans.

GENERAL LOAN ELIGIBILITY

A HomeReady mortgage is a first mortgage, purchase money, or limited cash-out transaction for one- to two-unit properties used as the borrower's principal residence.

Eligible properties include:

- One-unit properties and units in condos and PUDs;
- Existing structures and new construction; and
- Two unit properties.

Additional restrictions apply for purchase transactions with LTV ratios of 95.01 -97%. See below for additional requirements for HomeReady Mortgage transactions.

HOMEOWNERSHIP EDUCATION AND HOUSING COUNSELING

- **Overview:** Fannie Mae recognizes that credit and underwriting guidelines alone are not always enough to assess a borrower's readiness for homeownership. Fannie Mae believes that high-quality homeownership education and housing counseling can provide the borrower with the additional information and resources to make informed decisions that support long-term homeownership sustainability.
- **Compliance with Law:** All education, collection, and counseling effort must comply with the requirements of applicable federal and state laws, including the Equal Credit Opportunity Act, the Fair Debt Collections Practices Act, and the Fair Credit Reporting Act.
- **Definitions:** The following definitions, based on those developed by the U.S. Department of Housing and Urban Development (HUD), apply to these requirements:
    - **Homeownership Education:** Education with an established curriculum and instructional goals, provided in a group or classroom setting or via other formats, that covers such homeownership topics as the home-buying process, how to maintain a home, budgeting, and the importance of good credit. Participants in homeownership education must also receive a referral to or information about locating HUD-approved counseling agencies for additional assistance.
    - **Housing Counseling**: Counselor-to-client assistance that addresses unique financial circumstances and housing issues, and focuses on overcoming specific obstacles to achieve housing goals such as
        - Repairing Credit,
        - Locating cash for a down payment,
        - Recognizing predatory lending practices,
        - Understanding fair lending and fair housing requirements,
        - Avoiding foreclosure, and
        - Resolving a financial crisis.

All housing counseling involves the creation of a budget and a written action plan. Housing counseling must be provided by a HUD-approved counseling agency.

Pre-purchase homeownership education is required for all HomeReady purchase mortgage loans. At least one borrower on the mortgage loan must complete pre-purchase homeownership education prior to loan closing.

HOMEOWNERSHIP EDUCATION AND HOUSING COUNSELING CONTINUED

Options for Meeting the Pre-purchase Homeownership Education Requirements: There are three options for borrowers to meet the pre-purchase homeownership education requirements as described below:

Options	Description	Evidence of Completion
Complete the Framework LLC (Framework) online education program	The Framework homeownership education program is available in both English and Spanish and meets the standards defined by both the National Industry Standards for Homeownership Education and Counseling and by HUD. Framework will offer borrowers a referral to a HUD-approved counseling agency for additional assistance. Borrowers who complete the Framework program also have the option of consulting a counselor from any HUD-approved agency of their choice. **Note**: Online education may not be appropriate for all potential home buyers. 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 these situations, consumers should be directed to Framework's toll-free customer service line, from which they can be directed to a HUD-approved counseling agency that can meet their needs. The counseling agency that handles the referral must provide a certificate of completion, and the underwriter must retain a copy of the certificate in the loan file. Underwriters may contact Fannie Mae for guidance in other situations not addressed above.	Framework certification of course completion.
Receive pre-purchase housing counseling and complete homeownership education from a HUD-approved nonprofit housing counseling agency.	The counseling recipient must receive both pre-purchase housing counseling and homeownership education that meets HUD's definitions, as evidence by a ***Certificate of Completion of Pre-purchase Housing Counseling*** **(Form 1017), signed by both the counseling recipient and the HUD Counselor.**	*Certificate of Completion of Pre-purchase Housing Counseling* (Form 1017) signed by both the counseling recipient and the HUD counselor**.**

HOMEOWNERSHIP EDUCATION AND HOUSING COUNSELING, CONTINUED

Complete a homeownership education course required by a Community Seconds or Down Payment Assistance Program by a HUD-approved agency	If the mortgage loan involves a Community Seconds or a Down Payment Assistance Program and that program requires its own homeownership education course provided by a HUD-approved counseling agency, the borrower is not required to enroll in the Framework program. **Note**: Housing counseling or a referral to a housing counselor is not required.	Certificate issued by HUD-approved agency that provided the course.

Evidence of Completion: The Underwriter must provide documentation in the loan file that the borrower(s) complied with one of the three options described in the table above.

Landlord Education: no longer required for HomeReady loans secured by two-, three, or four-unit properties (homeownership education is still required).

Additional Resources
Fannie Mae provides additional resources to lenders, borrowers, and nonprofit agencies in support of homeownership education and housing counseling:

- Home Counselor Online is a free web-based application available to counseling providers that assesses the borrower's financial readiness for homeownership, compares loan products, and identifies options more quickly by populating approvable loan products, and moves newly mortgage-ready clients from counseling to loan origination with automated referrals.
- *Frequently Asked Questions* (FAQs) on the homeownership education and housing counseling policies are available on Fannie Mae's website.
- Two options for locating HUD-approved agencies are posted on Fannie Mae's website.

Post-purchase Early Delinquency Counseling: no longer required.

INELIGIBLE LOAN TYPES

- Manufactured Housing (MH)
- Renovation
- Buydown
- Financed MI
- High Balance

LPMI

- Allowed
  - See PBM rate sheet for Lender Paid Mortgage Insurance Adjustment for additional pricing.
- Minimum Credit Score 640
- Essent Mortgage Insurance Company ONLY

MANUAL UNDERWRITING

- Not Eligible

MINIMUM/ MAXIMUM LTV, CLTV, AND HCLTV RATIOS

- Minimum LTV is 80.01%

Purchase	1 Unit	FRM: 97%
Limited Cash-Out Refinance	1 Unit	FRM: 95%
Purchase Limited Cash-Out Refinance	2 Units	FRM: 85%

Requirements for HomeReady Transactions with 95.01-97% LTV Ratios

Fannie Mae permits LTV, CLTV, and HCLTV ratios to exceed 95% if certain requirements are met. The table below describes the requirements for HomeReady mortgage transactions with LTV ratios of 95.01-97%.

Criteria	Requirements
CLTV Ratio	• 95.01 to 97% if the subordinate lien is not a Community Seconds loan • 105% if the subordinate lien is a Community Seconds loan
HCLTV	95.01 to 97%
Loan Purpose	Purchase transactions only
Loan Type	Fixed-rate loans with terms up to 30 years **Note**: High-balance, adjustable-rate, loans are not permitted
Property and Occupancy	One-unit principal residence. All borrowers must occupy the property

MINIMUM/ MAXIMUM LTV, CLTV, AND HCLTV RATIOS CONTINUED

Borrower Eligibility	At least one borrower on the loan must have a credit score
Underwriting Method	DU Only
Reserves	Reserves requirements will be determined by DU
Other	All other HomeReady requirements apply

MINIMUM BORROWER CONTRIBUTION FOR PURCHASE TRANSACTIONS

- Fannie Mae does not require a minimum borrower contribution from the borrower's own funds for any mortgage loan if the loan has an LTV, CLTV, or HCLTV ratio of 80% or less.
- If the LTV, CLTV, or HCLTV ratio is greater than 80%, the minimum required borrower contribution from the borrower's own funds is dependent on the number of units, as noted in the table below.

Number of Units	Minimum Borrower Contribution	Minimum Down Payment Requirement[a]
One[b]	None	3%[c]
Two	3%	15%

[a] Refer to the Maximum LTV, CLTV, or HCLTV guidelines section

[b] A minimum 3% borrower contribution and minimum down payment of 5% is required if Sweat Equity section in this topic for addition additional requirements.

[c] A 3% down payment is permitted for certain purchase transactions. (See borrower eligibility guidelines).

- No minimum contribution is required in connection with a limited cash-out refinance transaction.

MINIMUM CREDIT SCORE

Minimum Credit Score for this product is 620

- 680+ **and** LTV >80%
  - No LLPA
- <680
  - 1.5% LLPA

MINIMUM RESERVE REQUIREMENTS

- For DU loan casefiles, DU will determine the reserve requirement.

MORTGAGE INSURANCE COVERAGE

Mortgage Insurance Coverage Requirements				
LTV Range				
Fixed-Rate, term ≤ 20 years	**80.01-85.00%**	**85.01-90.00%**	**90.01-95.00%**	**95.01-97.00%**
	6%	12%	25%^	25%^
Fixed-Rate, term >20 years;	12%^	25%^	25%^	25%^

- Essent Mortgage Insurance only for LPMI Products
  - CF30HRLPMI
  - CF15HRLPMI

NON-BORROWER HOUSEHOLD INCOME

- The existence of income from a non-borrower household member may be considered as a compensating factor for loans underwritten through DU to allow for a higher DTI ratio. A “household member” is defined as any person who intends to live with the borrower in the subject property for a minimum of 12 months. An individual who is considered a non-borrower household member in accordance with these guidelines may not also be the contributor of rental income (two-unit properties), accessory unit income (one-unit properties), or boarder income on the subject transaction.

- The income from the non-borrower household member is not added to the borrower’s income for qualifying purposes; however, the existence of this income is considered a compensating factor that may allow the borrower to have a DTI ratio greater than 45% up to 50%. That income must be entered as Non-Borrower Household Income in the Other Income section of the DU online application.

- If the non-borrower income is needed as a compensating factor to allow a DTI ratio greater than 45% up to 50%, the following requirements apply:
  - The non-borrower household income must be documented in accordance with Fannie Mae’s standard documentation requirements applicable to the type of income reported.
  - The amount of the non-borrower household income must be 30% or more of the total qualifying income used to underwrite the loan.
  - The underwriter must obtain a written statement from the non-borrower that he or she intends to reside with the borrower in the subject property for a minimum of 12 months.
- Because the non-borrower’s income is not being used for qualifying purposes, it is not considered when determining whether the mortgage loan meets the HomeReady income limit requirements. *HomeReady Non-Borrower Household Income Worksheet and Certification* (Form 1019), (located in Quick-Look-Manual = Policy Procedures) can be used to assist underwriters in documenting the non-borrower household income requirements and is available on Fannie Mae’s website.

OCCUPYING AND NON-OCCUPYING BORROWERS	• Non-occupant borrowers are permitted on HomeReady mortgages. o Refer to Fannie Mae guidelines B2-2-04 for Guarantors, Co-Signers, or Non-Occupant Borrowers, for eligibility requirements that apply.
OWNERSHIP OF OTHER PROPERTY	Fannie Mae now allows the occupant borrower on a HomeReady loan to own other residential properties. For loans secured by the borrower's principal residence, there are no limitations on the number of other properties that the borrower will have financed.
RENTAL INCOME FROM THE SUBJECT PROPERTY	• Rental income is an acceptable source of qualifying income in the following instances: o one-unit principal residence with an accessory unit. Refer to B4-1.3-05, Improvements Section of the Appraisal Report, for additional details related to acceptable accessory units; o Two- unit principal residence properties. Refer to B3-3.1-08, Rental Income, for calculation and documentation of rental income used for qualifying purposes.
SPECIAL FEATURE CODES	Special Feature Code 900 must be delivered for all HomeReady mortgage loans. In addition, one or more of the following special feature codes may also be required for HomeReady mortgages: • Loans with a Community Seconds – 118 • Loans with financed mortgage insurance – 281, and • Loans for borrowers with "thin" traditional credit files – 818 Underwriters and Funders to review DU findings for applicable Special Feature codes. For additional information about these codes, see *Special Feature Codes.*
SUBORDINATE FINANCING	Subordinate financing must comply with: • The terms for the Community Seconds option, which allow, among other provisions, a maximum combined loan-to-value of 105% ***(see Fannie Mae Community Seconds Mortgages B5-5.1-01 through B5-5.1-03, community Seconds Delivery Considerations);***or • Subordinate financing permitted in accordance with the Acceptable and Unacceptable Subordinate Financing types Tables below:

SUBORDINATE FINANCING CONTINUED

- **Acceptable Subordinate Financing Types**
  The table below provides the requirements for acceptable subordinate financing types.

✓	Acceptable Subordinate Financing Types
	Variable payment mortgages that comply with the details below
	Mortgages with regular payments that cover at least the interest due so that negative amortization does not occur.
	Mortgages with deferred payments in connection with employer subordinate financing (see below).
	Mortgage terms that require interest at a market rate.

If financing provided by the property seller is more than 2% below current standard rates for second mortgages, the subordinate financing must be considered a sales concession and the subordinate financing amount must be deducted from the sales price.

- **Unacceptable Subordinate Financing Terms**
  The table below describes unacceptable subordinate financing terms

✓	Unacceptable Subordinate Financing Terms
	Mortgages with negative amortization (with the exception of employer subordinate financing that has deferred payments
	Subordinate financing that does not fully amortize under a level monthly payment plan where the maturity or balloon payment date is less than five years after the note date of the new first mortgage (with the exception of employer subordinate financing that has deferred payments). **Note**: Fannie Mae will accept these subordinate financing terms when the amount of the subordinate debt is minimal relative to the borrower's financial assets and/or credit profile.

See Fannie Mae Subordinate Financing B2-1.1-04 for complete guidelines

- Subordinate financing from a seller-held mortgage is not permitted with HomeReady mortgages.

SWEAT EQUITY

- Fannie Mae considers sweat equity an acceptable source of funds for HomeReady mortgage loans provided underwriters document that
  - The mortgage is originated under a specific lending program
  - The lending program is managed by a strong, experienced nonprofit organization.
- These factors enable Fannie Mae to work with Lenders that have the proven ability to properly evaluate the contributory value of the sweat equity work.
- When sweat equity is accepted toward the down payment, the borrower must contribute at least 3% from his or her own funds. For one-unit properties, a minimum down payment of 5% is required-2% sweat equity and maximum LTV ratio of 95%. For two-unit properties refer to the maximum LTV ratios section.

TEMPORARY BUYDOWNS	• Not Allowed
UNDERWRITING OPTIONS	• HomeReady mortgage loans can be underwritten with DU. • For Home Ready mortgage loans that are underwritten through DU, the underwriter must enter data in the online loan application, identify the loan as a community lending mortgage, and select the HomeReady product. • If the underwriter does not select HomeReady as the Community Lending product, DU will provide a message when the total qualifying income entered in DU appears to be within the applicable AMI limits and/or the property located within the defined geographic areas indicating that the loan may be eligible as a HomeReady mortgage loan. The underwriter must select the HomeReady product and resubmit the loan casefile to help determine if the loan meets all of the HomeReady requirements (assuming the underwriter wants to sell the loan to Fannie Mae as a HomeReady mortgage).