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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 • CF15HBHRFN – High Balance 15 year fixed • CF30HBHRFN – High Balance 30 year fixed
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. • The property is defined as a one-unit property • There is only one accessory unit on the property; multiple accessory units are not permitted. • The appraisal report demonstrates that the improvements are typical for the market through an analysis of at least one comparable property with the same use. • 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:
	  ○ The individual(s) has lived with (and paid rent to) the borrower for the last 12 months.
	  ○ 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).
	  ○ 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.

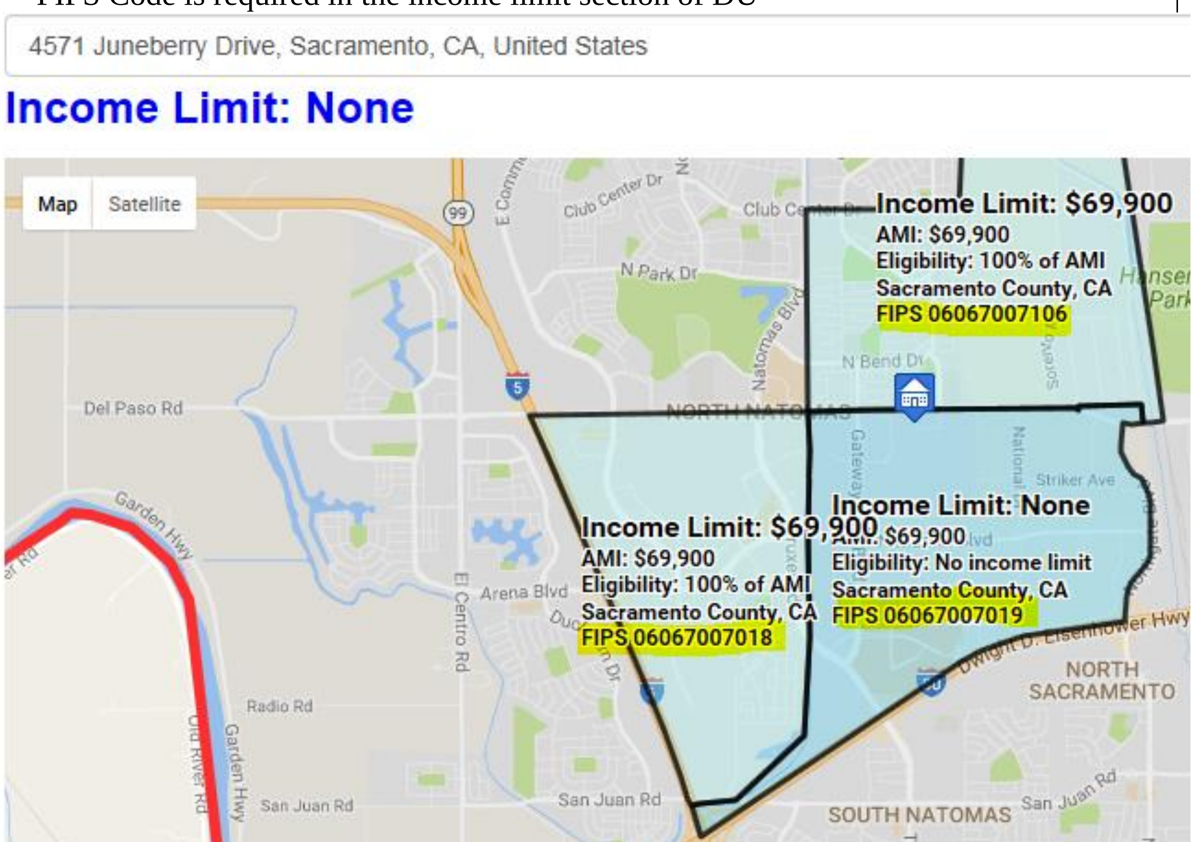
BORROWER INCOME LIMITS AND CALCULATIONS

- 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



DU LOAN CASEFILES: ONE BORROWER HAS NO CREDIT SCORE	• If one (or more) borrower(s) has a credit score and at least one borrower does not have a credit score, then DU will apply the following requirements: ○ The property must be a one-unit, principal residence, and all borrowers must occupy the property. ○ The transaction must be a purchase or limited cash-out refinance ○ The loan amount must meet the general loan limits – high balance mortgage loans are not eligible ○ Reserves may be required as determined by DU ○ If the borrower(s) with a credit score is contributing more than 50% of the qualifying income, the underwriter is not required to document a non-traditional credit history for the borrower(s) without a credit score. ○ If the borrower(s) with a credit score is contributing 50% or less of the qualifying income, the underwriter must document a non-traditional credit history for each borrower without a credit score. ▪ Two sources of nontraditional credit are required for the borrower without a credit score (one of which must be housing-related). ○ Refer to Fannie Mae guidelines Section B3-5.4-03 Documentation and Assessment of a Nontraditional Credit History for more information.
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: ○ The borrower customarily uses cash for expenses, and the amount of funds saved is consistent with the borrower’s previous payment practices. ○ 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. ○ 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. ○ 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	For HomeReady purchase transactions, at least one borrower on the mortgage loan must complete homeownership education prior to loan closing:
	• **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 efforts 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.
	  ○ **Housing Counseling**: One-on-one 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, and includes a homeownership education component.
	
	Note: References to the use of a HUD-approved agency include affiliated agencies (as defined in the HUD Housing Counseling Program Handbook) participating in a HUD program through a HUD-approved intermediary or State Housing Finance Agency.
	
	<u>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.</u>

HOMEOWNERSHIP EDUCATION AND HOUSING COUNSELING CONTINUED	**Meeting the Homeownership Education Requirements:**
	• To meet the homeownership education requirements, borrowers must complete the Framework Homeownership, LLC (Framework®) online education program, unless an exception exists as described below.
	• The Framework homeownership education program is available in both English and Spanish. It meets the standards defined by both the National Industry Standards for Homeownership Education and Counseling and by HUD. PBM must retain a copy of the certificate of course completion from Framework in the loan file to document that the education requirement was met.
	• The following exceptions provide alternatives for borrowers to meet the homeownership education requirements using a source other than Framework:
	  ○ Borrowers for whom online education may not be appropriate:
	    ▪ The presence of a disability, lack of Internet access, or other situations may indicate that a borrower is better served through other education modes (for example, in-person classroom education or via a telephone call). In these situations, borrowers 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 to document that the education requirement was met. Underwriters may contact Fannie Mae for guidance in other situations not addressed above.
	  ○ Borrowers completing homeownership education or counseling required by a Community Seconds or other down payment assistance provider:
	    ▪ If the mortgage loan involves a Community Seconds or other down payment assistance program, and that program requires its own homeownership education course or counseling provided by a HUD-approved counseling agency, the borrower is not required to complete the Framework program. The underwriter must retain a copy of the certificate issued by the HUD-approved provider to document that the requirement was met.
	  ○ Borrowers who completed housing counseling prior to execution of the sales contract
	    ▪ Borrowers who already completed housing counseling are not required to complete the Framework program. The underwriter must retain a copy of the *Certificate of Completion of Housing Counseling* (Fannie Mae Form 1017), signed by both the counseling recipient and the HUD counselor to document that the requirement was met. See below for additional information.
	
	Housing Counseling
	• If a borrower opts to work with a counselor, completion of housing counseling will satisfy Fannie Mae's homeownership education requirement, provided it was completed before the borrower executed a sales contract.
	• Housing counseling must be provided by a HUD-approved counseling agency and meet HUD standards for the delivery of this service. The requirements are described in Form 1017. The form must be signed by both the counseling recipient and the HUD counselor, and the underwriter must retain a copy of the form in the loan file to document that the requirement was met.

HOMEOWNERSHIP EDUCATION AND HOUSING COUNSELING, CONTINUED	**Landlord Education**: no longer required for HomeReady loans **Additional Resources** Fannie Mae provides additional resources to lenders, borrowers, and nonprofit agencies in support of homeownership education and housing counseling on its website, including: • *Frequently Asked Questions* (FAQs) and • Options for locating HUD-approved agencies • **Post-purchase Early Delinquency Counseling:** no longer required. https://www.fanniemae.com/singlefamily/mortgage-products-education-counseling

Summary of Homeownership Education and Housing Counseling Options

	Homeownership Education	Housing Counseling
Provider	• Framework Homeownership, LLC; or • Education course provided by a Community Seconds or other down payment assistance program provider, where the program requires its own homeownership education or counseling provided by a HUD-approved counseling agency	HUD-approved Counseling Agency
Method of Delivery	• On-line if provided by Framework, or any method offered by provider **Note**: For borrowers who have a disability, lack of Internet access or other situation where another form of education (other than on-line) may be more appropriate, Framework will provide a referral to a HUD-approved counseling agency that can meet their needs	In person, telephonic, or video conferencing per HUD standards
Date Required for Completion	• Prior to loan closing	Prior to execution of the sales contract
Required Documentation	• Certificate of Course Completion from Framework (or alternate provider based on Framework referral, if applicable); or • Certificate of completion from provider	Certificate of Completion of Housing Counseling (Fannie Mae Form 1017), signed by both the counseling recipient and the HUD counselor.

INELIGIBLE LOAN TYPES	• Manufactured Housing (MH) • HomeStyle Renovation or HomeStyle Energy • Temporary Buydowns • Financed MI

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
If the LTV, CLTV, or HCLTV ratio exceeds 95% for a HomeReady transaction, the following requirements apply.

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

<table>
<tr>
<td>MINIMUM BORROWER CONTRIBUTION FOR PURCHASE TRANSACTIONS</td>
<td>

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.

<table>
<tr><th>Number of Units</th><th>Minimum Borrower Contribution</th><th>Minimum Down Payment Requirement[a]</th></tr>
<tr><td>One[b]</td><td>None</td><td>3%[c]</td></tr>
<tr><td>Two</td><td>3%</td><td>15%</td></tr>
</table>
[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).
See Chapter B3-4, Asset Assessment, and B5-5.1-02, Community Seconds Loan Eligibility, for information about allowable sources of funds for completing the transaction.
</td>
</tr>
<tr>
<td>MINIMUM CREDIT SCORE</td>
<td>
Minimum Credit Score for this product is 620

680+ <u>and</u> LTV >80%
No LLPA
<680
1.5% LLPA

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<tr>
<td>MINIMUM RESERVE REQUIREMENTS</td>
<td>

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

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<tr>
<td>MORTGAGE INSURANCE COVERAGE</td>
<td>
<table>
<tr><th colspan="5">Mortgage Insurance Coverage Requirements</th></tr>
<tr><th colspan="5">LTV Range</th></tr>
<tr><th>Fixed-Rate, term $\le$ 20 years</th><th>80.01-85.00%</th><th>85.01-90.00%</th><th>90.01-95.00%</th><th>95.01-97.00%</th></tr>
<tr><td></td><td>6%</td><td>12%</td><td>25%^</td><td>25%^</td></tr>
<tr><td>Fixed-Rate, term >20 years;</td><td>12%^</td><td>25%^</td><td>25%^</td><td>25%^</td></tr>
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Essent Mortgage Insurance only for LPMI Products
CF30HRLPMI
CF15HRLPMI

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NON-BORROWER HOUSEHOLD INCOME	▪ **NOTE:** With the release of DU Version 10.1 during the weekend of July 29, 2017, the comprehensive DU risk assessment will enable all borrowers to be eligible for an increased maximum debt-to-income (DTI) ratio of up to 50%, depending on risk factors. As a result, the non-borrower household income flexibility and its associated compensating factor will be retired with the release of DU Version 10.1. Casefiles submitted or resubmitted through DU Version 10.0, however, may still use non-borrower household income to qualify borrowers.
OCCUPYING AND NON-OCCUPYING BORROWERS	• Non-occupant borrowers are permitted on HomeReady mortgages. ○ 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	• Borrower(s) who intend to occupy the property may have an ownership interest in other residential property at the time of loan closing.
RENTAL INCOME FROM THE SUBJECT PROPERTY	• Rental income is an acceptable source of qualifying income in the following instances: ○ 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; ○ 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: ○ **Acceptable Subordinate Financing Types** The table below provides the requirements for acceptable subordinate financing types.

SUBORDINATE FINANCING CONTINUED	(see tables below)

✓	**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 must 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).