

# Qualifying Interest Rate Used by Desktop Underwriter for Proposed Monthly Housing Expense

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The proposed monthly housing expense consists of principal, interest, taxes, insurance, and other assessments (PITIA) based on the fully amortizing repayment schedule and is included in the total expense ratio. For more information on qualifying payment requirements, refer to the *Selling Guide*.

The following table provides information on the qualifying interest rate Desktop Underwriter® (DU®) uses to calculate the PITIA when qualifying the borrower:

DU ARM Plan	Qualifying Rate
FM GENERIC, 1 YR, 2% Annual Cap	Note rate plus 6%
FM GENERIC, 1 YR, 1% Annual Cap FM GENERIC, 3 YR	Note rate plus 5%
FM GENERIC, 5 YR	Greater of fully indexed rate <sup>1</sup> or note rate plus 2%
FM GENERIC, 7 YR FM GENERIC, 10 YR	Note rate  <b>NOTE:</b> Higher-priced mortgage loans and higher-priced covered transactions must be manually underwritten if the fully indexed rate is greater than the note rate.
DU Plan	Qualifying Rate
Lender ARM plan* *ARM plan number not recognized by DU as a Fannie Mae ARM plan.	<ul style="list-style-type: none"> <li>▪ Qualifying rate entered in the ARM Qualifying Rate field in DU</li> <li>▪ If the ARM Qualifying Rate field is not entered, DU will use the note rate plus 5%</li> </ul>

<sup>1</sup>The fully indexed rate is defined as the index plus the margin as entered in the online loan application.

**NOTE:** The fully indexed rate is rounded to the nearest one-eighth percent per the B2-1.4-02, *Adjustable-Rate Mortgages (ARMs)* section in the *Selling Guide*.