Fannie Mae

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

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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*, B3-6-04, Qualifying Payment Requirements.

The following table provides information on the qualifying interest rate Desktop Underwriter® (DU®) uses to calculate the PITIA when qualifying the borrower for an ARM loan.

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[1] or note rate plus 2%
FM GENERIC, 7 YR FM GENERIC, 10 YR	Note rate **NOTE:** 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	▪ Qualifying rate entered in the ARM Qualifying Rate field in DU ▪ If the ARM Qualifying Rate field is not entered, DU will use the note rate plus 5% **NOTE:** For ARMs with an initial fixed rate period greater than five years, if the lender wants to use an interest rate higher than the note rate to qualify the borrower, the higher rate must be entered in the ARM Qualifying Rate field in DU and the Lender ARM Plan must be used.

[1]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 Selling Guide, B2-1.4-02, Adjustable-Rate Mortgages (ARMs).*