



## HomeReady FAQs

Listed below are common questions about the features, requirements, and benefits of the HomeReady® mortgage, our low down payment mortgage product designed for creditworthy, low-income borrowers. For details on the HomeReady required homeownership education, refer to the [Homeownership Education FAQs](#). To navigate to a specific section, click on the links below.

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### General

#### Q1. What are HomeReady’s lender benefits?

HomeReady helps lenders confidently serve today’s market of creditworthy, low-income borrowers. HomeReady offers lenders

- Certainty: Underwrite with confidence – DU® automatically identifies potential HomeReady eligible loans and provides a credit risk assessment.
- Simplicity: Combine standard and HomeReady loans into MBS pools and whole loan commitments.
- Sustainability: Expand access to credit responsibly with homeownership education and advising options for borrowers.





## Q2. What are HomeReady's borrower benefits?

HomeReady serves low-income borrowers.

- Lower than standard MI coverage requirements for loans with LTVs greater than 90 percent up to 97 percent.
- Cancellable monthly MI payments (per *Servicing Guide* policy; generally upon borrower request when the loan balance drops below 80 percent LTV, or automatically when it drops below 78 percent).
- Innovative underwriting flexibilities, including rental unit and boarder income, expand access to credit responsibly.

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 can also be used for down payment and closing costs (1-unit properties).

## Q3. May any Fannie Mae lender originate HomeReady mortgages?

Yes. HomeReady mortgages are available to all approved Fannie Mae sellers with details in the *Selling Guide*. Note, however, that use of the HomeStyle® Renovation product in conjunction with HomeReady requires that the lender be specifically approved by Fannie Mae to originate HomeStyle Renovation loans.

## Q4. Has Fannie Mae targeted particular markets for HomeReady?

The HomeReady product is available nationwide and is designed to serve borrowers across the country. Borrower income eligibility limits are based upon the area median income of the census tract in which the property is located; limits are aligned with Fannie Mae's regulatory housing goal of supporting low-income borrowers.

## Q5. Are lender-funded grants permitted on HomeReady purchase loans?

Lenders may provide grants to borrowers taking HomeReady purchase loans that can be used toward down payment, closing costs, financial reserves or certain energy-related improvements. Borrowers must still meet the minimum HomeReady contribution requirement of 3% from their own funds or eligible sources such as Community Seconds. For more information on lender contributions and requirements, see [Selling Guide B3-4.3-06](#).

## Q6. Does HomeReady allow a limited cash-out refinance (LCOR) of a Fannie Mae to Fannie Mae loan up to a 97 percent LTV ratio?

HomeReady allows LCORs up to 97 percent LTV in DU; only for loans owned or securitized by Fannie Mae. Follow the standard guidelines per *Selling Guide* [section B5-6-01](#).

## Income Eligibility

### Q7. What are the income eligibility requirements for HomeReady borrowers?

Effective July 20, 2019, the income limit for all HomeReady loans is 80% of area median income (AMI) for the property's location, including properties in low-income census tracts.



On the [HomeReady page](#), the Income Eligibility Lookup tool provides lenders and other housing professionals with a quick and easy way to determine potential borrower income eligibility. Simply use the tool to look up census tract income eligibility by property address or by Federal Information Processing Standards (FIPS) code. Eligibility by census tract is shown in the [Income Eligibility by Census Tract Lookup](#), and income eligibility is identified in Desktop Underwriter® (DU®).

#### **Q8. How can lenders determine income eligibility for HomeReady?**

For loan casefiles underwritten through DU, income eligibility is determined based on the area median income of the subject property data, or FIPS code provided on the loan application. A field on the Additional Data screen in the Desktop Originator® (DO®)/DU User Interface gives lenders the ability to enter census tract information if DU is unable to standardize the property address. When the subject address cannot be standardized, and a census tract cannot be determined, but the state and zip code are provided, DU will use the AMI for the county associated to the center location of the zip code provided to estimate HomeReady eligibility. If the subject property is not located in the county identified, the user must provide the complete property address or a complete/updated FIPS code on the loan application and resubmit the loan casefile to DU. DU will then use the information provided to determine the census tract or county.

When determining whether a mortgage is eligible under the borrower income limits, lenders must count the income from any borrowers listed on the mortgage note whose income is considered in evaluating creditworthiness for the mortgage loan.

The [HomeReady Income Eligibility Lookup tool](#) provides lenders and other housing professionals with a quick and easy way to determine potential borrower eligibility for HomeReady. Simply use the tool to look up census tract income eligibility by property address or by Federal Information Processing Standards (FIPS) code.

Also on the HomeReady page, an [Income Eligibility by Census Tract Lookup](#) (spreadsheet) is provided to allow lenders to check income eligibility in advance of DU submission or to determine income eligibility for manually underwritten loans. The property census tract is usually provided on the appraisal.

## **Eligibility and Underwriting**

#### **Q9. Can HomeReady loans be manually underwritten?**

Yes, manual underwriting is allowed, although we expect the vast majority of loans to be underwritten through DU. Certain HomeReady transactions – such as LTV ratios exceeding 95 percent, manufactured housing, and high-balance mortgage loans – must be underwritten through DU.

#### **Q10. May borrowers have an ownership interest in other residential property at the time of loan closing?**

Yes, borrower(s) who intend to occupy the property may have an ownership interest in other residential properties but may only have a total of one other financed property (in addition to the subject property) at the time of closing. Non-occupant borrower(s) are not subject to this restriction.

## **Borrower Income and Assets**

#### **Q11. What borrower income flexibilities are unique to HomeReady?**

Acceptable income sources permitted only for HomeReady loans include rental income from a 1-unit property with an accessory dwelling unit (such as a basement apartment) and boarder income (guidelines provide documentation flexibility).



**Q12. Must the accessory unit be in compliance with local zoning requirements?**

One-unit properties with accessory units are eligible for delivery to Fannie Mae, including instances in which the accessory unit does not comply with zoning requirements. The appraisal report must meet specified requirements. Refer to *Selling Guide* [section B4-1.3-05](#) for details.

**Q13. If the borrower is purchasing a 1-unit property with an accessory unit but does not have a lease to document rental income, what documentation can be used to determine the amount of rental income to be used for qualifying purposes?**

Lenders may obtain a Fannie Mae Single-Family Comparable Rent Schedule ([Form 1007](#)) from the appraiser. Even though 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 is for the rental of an accessory unit on a 1-unit, principal residence property, and that the information reported on the form is specific to the accessory unit. Rental income used for qualifying purposes can then be calculated in accordance with *Selling Guide* [section B3-3.1-08](#), Rental Income.

**Q14. What documentation is required for boarder income?**

For boarder income to be eligible, there must be documented evidence of prior shared residency for the most recent 12 months. The flexibility provided allows for documentation of the boarder income to be from at least nine of the most recent 12 months and averaged over 12 months. This is to provide support in instances where the boarder has lived with the borrower for 12 months but is unable to provide a full 12 months' worth of documentation.

**Q15. Are there any changes to the existing cash-on-hand documentation requirements?**

There are no policy changes associated with the use of cash on hand. Cash on hand remains an acceptable source of funds for the borrower's down payment, closing costs and/or prepaid items. The lender must verify and document that the borrower customarily uses cash for expenses and that the amount of funds saved is consistent with the borrower's previous payment practices, and must follow other requirements of *Selling Guide* [section B5-6-02](#). Using cash-on-hand as an asset in DU is permitted on HomeReady loan casefiles; this flexibility is exclusive to HomeReady mortgages.

## **Nontraditional Credit**

**Q16. Is nontraditional credit permitted for HomeReady?**

Borrowers with nontraditional credit are eligible for HomeReady and can be underwritten manually or through DU. Refer to the *Selling Guide* for details.

**Q17. How do we define nontraditional credit?**

If a borrower has no credit score due to a lack of credit history with the credit repository, a nontraditional credit profile may be established.

**Q18. What types of nontraditional credit are allowed?**

For loans underwritten through DU:



- If at least one borrower has a credit score, no sources of nontraditional credit are required if the borrower with a credit score is contributing more than 50 percent of qualifying income. Otherwise, two sources of nontraditional credit are required for the borrower without a credit score (one of which must be housing-related).
- For underwriting through DU, if no borrower has a credit score, each borrower must have two sources of nontraditional credit and at least one must be housing-related.

For manual underwriting, an acceptable nontraditional credit profile must be established for each borrower without a credit score. A minimum of three sources of nontraditional credit are required for HomeReady loans. If a borrower does not have a housing-related source of credit, a minimum 12 months of reserves are required.

## Property Type

### **Q19. What is the maximum LTV ratio for 2- to 4-unit properties?**

HomeReady eligibility for 2- to 4-unit properties underwritten with DU (purchase or limited cash-out refinance) can go up to 95 percent FRM or ARM. HomeReady eligibility under manual underwriting is limited to 85 percent FRM or ARM on 2-unit properties and 75 percent FRM or ARM on 3 to 4-unit properties.

### **Q20. Is there a minimum contribution requirement for borrowers buying a 2- to 4-unit home?**

There is a 3 percent minimum borrower contribution on 2- to 4-unit HomeReady properties with LTV ratios exceeding 80 percent. Standard business requires a 5 percent minimum borrower contribution. There is no minimum borrower contribution if the LTV is 80 percent or less on either HomeReady or standard business.

### **Q21. As with a 1-unit home, may rental income for 2- to 4-unit properties be used with a HomeReady mortgage?**

Rental income may be used from a 2- to 4-unit property with HomeReady, as well as standard business. For HomeReady loans, rental income also may be used on a 1-unit property if there is an accessory unit (such as a basement apartment), and boarder income can be used for qualifying if there is an individual residing with the borrower who will continue to reside with the borrower in the subject property.

### **Q22. Can a Community Seconds loan be used with a HomeReady loan secured by a manufactured home up to a 105 percent combined loan-to-value (CLTV) ratio?**

A Community Seconds can be used in conjunction with a HomeReady loan secured by a manufactured home; however, the maximum LTV and CLTV ratios are limited to 95 percent. When HomeReady is combined with a manufactured home, the more restrictive eligibility applies. For example, the loan must be underwritten in DU (manufactured housing requirement), the maximum LTV and CLTV ratios are limited to 95 percent (manufactured housing requirement), the transaction is limited to a 1-unit principal residence (manufactured housing requirement), and the transaction must be a purchase or limited cash-out refinance (HomeReady requirement).

### **Q23. Are community land trusts eligible for HomeReady financing?**

Yes. When used in combination with down payment assistance programs and community land trust properties, HomeReady creates a robust value proposition supporting affordable housing. For information on our community land trust guidelines, see the [Appraising Community Land Trusts flyer](#). For more information on community land trusts, visit the [National Community Land Trust Network](#).



## DU Requirements

### Q24. How does DU provide automated identification of loans potentially eligible for HomeReady?

Based on a comparison of the income limit for the area in which the property is located and the total qualifying income on the loan casefile, DU notifies users when a loan casefile appears to be eligible for HomeReady, but the lender has not underwritten the loan casefile as HomeReady. The lender would then need to resubmit the loan casefile as a HomeReady loan to obtain the appropriate HomeReady messaging.

### Q25. Does DU specify when a loan casefile is *not* eligible for HomeReady?

When the lender selects HomeReady as the Community Lending product in DU and the loan casefile receives an Ineligible recommendation, DU issues a message specifying the reason the loan casefile is ineligible.

### Q26. When and how should the FIPS code be entered?

Lenders may use the FIPSCodeIdentifier field in DU to provide the Federal Information Processing Standard Code – or FIPS code – which is a unique code assigned to all geographic areas. The first two digits of the FIPS code indicate the state number; the next three, the county number; and the last six indicate the census tract number. For example, the FIPS code for 3900 Wisconsin Ave. NW, Washington, DC, is 11001001002 (State code 11, county code 001, and census tract 001002).

Enter all 11 digits of the FIPS code, with no periods, spaces, or dashes.

The FIPS code is not required, but it can be used if DU is unable to determine the census tract. When the FIPS code is provided, DU uses that census tract to determine the AMI to be used in the income eligibility determination.

## Mortgage Insurance

### Q27. What are the MI coverage requirements for HomeReady?

Standard MI coverage is required on HomeReady loans with LTV ratios at or below 90 percent, and 25 percent coverage is required for LTV ratios exceeding 90 percent, which is lower than Fannie Mae's standard MI coverage levels of 30 percent for LTV ratios of 90.01–95.00 percent and 35 percent for LTV ratios of 95.01–97.00 percent that apply to most loans.

All MI types (e.g., monthly, single, split) and lender-paid MI are allowed for HomeReady.

### Q28. Can lenders use the Minimum MI Coverage Option with HomeReady?

Yes, the Minimum MI Coverage Option (see the [LLPA Matrix](#)) may be used.

## Pricing

### Q29. What is the HomeReady pricing structure?

HomeReady pricing uses the lender's base guaranty fee. LLPAs are waived for all HomeReady loans. See the [LLPA Matrix](#) for details. (The Minimum MI coverage option LLPA is not waived).



## Committing and Delivery

### Q30. Do lenders need to deliver HomeReady loans into separate MBS contracts?

No, lenders can commingle standard and HomeReady loans into MBS pools and whole loan commitments.

### Q31. Do lenders need to take down a separate whole loan commitment for HomeReady loans?

No, HomeReady has no separate whole loan committing product/pricing grids. Refer to the [HomeReady product matrix](#) for more information.

### Q32. Are there limits on the percentage of HomeReady loans that can be delivered into an MBS pool or against a whole loan commitment?

No. There is no limit on the percentage of HomeReady loans that can be delivered.

### Q33. How are HomeReady loans identified at delivery?

When delivering a HomeReady loan in Loan Delivery, you must provide special feature code (SFC) 900. In addition, as part of the delivery data for the HomeReady product, lenders need to ensure that ULDD Sort ID 238 – LoanAffordableIndicator – is set to “True,” for any mortgage where the borrower completes a homeownership education course through a qualified provider (see Q.34 below for a definition of qualified provider) or housing counseling through any HUD-approved agency. ULDD Sort ID 576 must be set to “Government Agency” and ULDD Sort ID 578 must be set to “HomeStudy” if the borrower completes homeownership education with Fannie Mae HomeView®. For other education/counseling providers and formats, see the [ULDD Specification](#).

## Homeownership Education

### Q34. What are the homeownership education requirements for HomeReady loans?

Fannie Mae believes that access to quality homeownership education and counseling can provide borrowers with the important information and resources they need to make informed decisions that support long-term homeownership sustainability.

For HomeReady purchase transactions, if ALL occupying borrowers are first-time homebuyers, then at least one borrower must complete **a homeownership education course from a qualified provider\*, regardless of LTV. Fannie Mae HomeView® can be used to satisfy the homeownership education requirements.** HomeView gives first-time homebuyers a clear view into the homebuying process.

Exceptions to **the homeownership education course requirement:**

- 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, 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 such cases, lenders should direct buyers to **the HOPE™ Hotline 1-888-995-HOPE (4673)**, which can refer consumers to a HUD-approved counseling agency.



\* A qualified provider must be independent of the lender, with homeownership education content that is aligned with National Industry Standards (NIS) or is offered by a housing counseling agency approved by the U.S. Department of Housing and Urban Development (HUD).

For more information, refer to the [homeownership education FAQs](#).

**Q35. Do lenders need to have the Borrower’s Authorization for Counseling form signed at closing for HomeReady loans?**

No. The requirement to have the Borrower’s Authorization for Counseling form signed at closing was removed from the *Selling Guide* in December 2015.

**Q36. How does a HomeReady loan qualify for the housing counseling loan-level price adjustment?**

HomeReady purchase transactions on which buyers have received housing counseling prior to entering into a sales contract, lenders will receive a **\$500 loan-level price adjustment credit** for HomeReady loans delivered with Special Feature Code 184 and a completed Form 1017. The lender must retain a copy of the form in the loan file to document that the requirement was met.

## Lender Resources

**Q37. What resources and training are available for lenders?**

Many lender resources are available on the [HomeReady web page](#), including the following:

- Product matrix, loan officer fact sheet, general FAQs, and Homeownership Education and Housing Counseling FAQs
- [HomeReady Income Eligibility Lookup tool](#), which provides lenders and other housing professionals with a quick and easy way to determine potential eligibility for HomeReady by property address or by Federal Information Processing Standards (FIPS) code
- HomeReady income flexibility fact sheets, including sample borrower scenarios
- An [eLearning originating and delivering HomeReady loans course](#) and [eLearning training for loan officers](#), available 24/7
- [Customizable marketing materials](#), in English and Spanish, to help you promote HomeReady to your customers and business partners