

Selling Guide Announcement SEL-2014-15

December 8, 2014

Expanded LTV, CLTV, and HCLTV Ratios for Purchase and Limited Cash-out Refinances

According to consumer research conducted by Fannie Mae, the primary barrier to homeownership for first-time home buyers is saving money for down payments and closing costs. In support of ongoing efforts to expand access to credit and support sustainable homeownership, Fannie Mae is announcing an increase in the maximum LTV, CLTV, and HCLTV ratios for certain principal residence transactions. Fannie Mae will offer 97% LTV financing to help home buyers who would otherwise qualify for a mortgage but may not have the resources for a larger down payment and to help borrowers with an existing Fannie Mae mortgage who may not be eligible to refinance using Refi Plus™ or DU Refi Plus™.

Fannie Mae is providing multiple options to help lenders serve creditworthy borrowers and expand business opportunities. Using the power of Fannie Mae's proven risk management tool, Desktop Underwriter® (DU®), lenders will be able to underwrite these transactions safely and responsibly and finance mortgages for sustainable homeownership.

Brief Summary of the Policy Changes

Following is a summary of the policy changes that are more fully described in this Announcement. Fannie Mae will allow LTV ratios greater than 95% up to a maximum of 97% for:

- MyCommunityMortgage® (MCM®) purchase transactions if at least one borrower is a first-time home buyer and pre-purchase home-buyer education and counseling is completed,
- standard purchase transactions (non-MCM) if at least one borrower is a first-time home buyer, or
- standard limited cash-out refinances (non-MCM) of existing Fannie Mae loans.

All loans must be fixed-rate and secured by a one-unit principal residence. Manufactured housing is not permitted. All loans must be underwritten with DU.

In addition, for MCM loans Fannie Mae will now allow reserves to come from gifts. This applies to both manually underwritten loans and loan casefiles underwritten with DU.

Effective Dates

The 97% LTV ratio updates will be available for loan casefiles underwritten through DU Version 9.2, which will be implemented the weekend of December 13, 2014. The updated reserves policy for manually underwritten MCM loans is effective immediately. (DU currently includes excess gift funds in the reserves calculation.)

Purchase Transactions

The increased LTV, CLTV, and HCLTV ratios will be permitted for both standard business and MCM loans. The requirements for purchase transactions are in the following table.

Purchase Transactions		
Criteria	MCM	Non-MCM
LTV, CLTV, and HCLTV Ratios	LTV: 95.01 to 97% CLTV: 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 Type	Fixed-rate loans with terms up to 30 years. High-balance, adjustable-rate, and HomeStyle Renovation [®] loans are not permitted.	
Property and Occupancy	One-unit principal residence. Manufactured housing is not permitted.	
Borrower Eligibility	At least one borrower must be a first-time home buyer, as indicated on the <i>Uniform Residential Loan Application</i> (Form 1003) in Section VIII., when at least one borrower responds "No" to Declaration M: Have you had an ownership interest in a property in the last three years?	
	MCM area median income limits apply per the <i>Selling Guide</i> .	No income limit requirements.
Underwriting Method	DU only	
Home-buyer Education and Counseling	At least one borrower must complete an acceptable pre-purchase home-buyer education and counseling program in accordance with the requirements of the <i>Selling Guide</i> . Post-purchase early delinquency counseling must be available for any delinquency that occurs during the seven years following the date on which the mortgage is originated. Note that the existing counseling requirements for MCM loans with LTV ratios of 95% or less will continue to be required only if <i>all</i> borrowers are first-time home buyers.	Not required.
Minimum Borrower Contribution	Standard MCM contribution requirements apply. Note that sweat equity will continue to be permitted only with a 5% down payment.	Standard contribution requirements apply.
Mortgage Insurance Coverage	18%	18% + MI Loan-Level Price Adjustment or 35%
Reserves	Reserves requirements will be determined by DU. Reserves may come from eligible gifts. (See Gifted Reserves for MCM Loans below.)	
Other	All other MCM requirements apply.	All other <i>Selling Guide</i> policies apply.

Limited Cash-out Refinance Transactions

The increased LTV, CLTV, and HCLTV ratios will be permitted for standard limited cash-out refinance transactions if Fannie Mae is the owner of the existing loan. These requirements are not applicable to MCM loans, Refi Plus, or DU Refi Plus loans. The requirements are in the following table.

Limited Cash-Out Refinance Transactions	
Criteria	Non-MCM
Existing Loan	<p>The lender must document that the existing loan being refinanced is owned (or securitized) by Fannie Mae. Documentation may come from</p> <ul style="list-style-type: none"> ▪ the lender's servicing system, ▪ the current servicer (if the lender is not the servicer), ▪ Fannie Mae's Loan Lookup tool, or ▪ any other source as confirmed by the lender. <p>Refer to the DU Version 9.2 Release Notes for specific details about how to indicate that Fannie Mae is the owner of the existing loan before submitting the loan to DU.</p>
LTV, CLTV, and HCLTV Ratios	<p>LTV: 95.01 to 97%</p> <p>CLTV: 95.01 to 97% if the subordinate lien is not a Community Seconds[®] loan 105% if the subordinate lien is a Community Seconds loan</p> <p>HCLTV: 95.01 to 97%</p>
Loan Type	<p>Fixed-rate loans with terms up to 30 years. High-balance, adjustable-rate, and HomeStyle Renovation loans are not permitted.</p>
Property and Occupancy	<p>One-unit principal residence. Manufactured housing is not permitted.</p>
Underwriting Method	<p>DU only</p>
Mortgage Insurance Coverage	<p>18% + MI Loan-Level Price Adjustment or 35%</p>
Other	<p>All other standard limited cash-out refinance policies apply.</p>

Updated Matrices

The [Eligibility Matrix](#) and [Loan-Level Price Adjustment \(LLPA\) Matrix and Adverse Market Delivery Charge \(AMDC\) Information](#) have been updated to incorporate these new higher LTV ratios.

Gifted Reserves for MCM Loans

Currently for MCM loans, the *Selling Guide* does not allow reserves to come from a gift. This policy is changing such that reserves for MCM can now come from eligible gifts for both manually underwritten loans and DU loan casefiles, without regard to the LTV, CLTV, or HCLTV ratios.



Future Updates

These policy changes will be included in an update to the *Selling Guide* in early 2015. In addition, Fannie Mae is continuing to evaluate allowable sources of funds, borrower contribution requirements, and home-buyer education and counseling requirements, which may result in future changes or clarification to existing policies.

Lenders who have questions about this Announcement should contact their Account Team.

Carlos T. Perez
Senior Vice President and
Chief Credit Officer for Single-Family