

# AFFORDABLE MORTGAGE LENDING GUIDE

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A Resource for Community Bankers

Part I: Federal Agencies and Government Sponsored Enterprises



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*The Federal Deposit Insurance Corporation (FDIC) does not endorse the programs described in this publication or any particular approach to their use. The overviews and program information included in this Guide are designed to illustrate the broad range of options available to financial institutions. Each institution is responsible for assessing whether the resources presented here are appropriate for the bank to pursue given factors such as the institution's existing mortgage, Community Reinvestment Act, or community development strategies, as well as business focus, financial condition, and market.*

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# ABOUT THIS PUBLICATION

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## Economic Inclusion and Opportunity

Mortgage lending is an important element of many community banks' business strategies. Community banks offer mortgage products and services designed to meet the particular needs of their communities, including rural areas and low- and moderate-income (LMI) borrowers. Offering affordable mortgage loans to a wide range of customers deepens bank-customer relationships and provides an important pathway for borrowers to own their own homes and build wealth. At the Federal Deposit Insurance Corporation (FDIC), we recognize that mortgage lending is also an important way for insured institutions to promote access and participation in the mainstream banking system. Broad participation in the products and services offered by insured institutions promotes stability and confidence in the financial system, which is the core mission of the FDIC.

Many banks, including community banks, take advantage of the opportunities to serve the particular mortgage credit needs of their communities. The Affordable Mortgage Lending Guide (Guide) provides information to help make community bankers aware of the wide range of current affordable mortgage products. These programs can be important resources for community banks when properly managed. Bank management should understand the terms of these programs, the risks they pose, and the impact on banks' financial condition to ensure that they are serving their communities with prudently underwritten and affordable mortgage products.

## Outreach and Communication

To determine how the FDIC could contribute to efforts by banks to offer prudently underwritten, affordable, and responsible mortgage credit for LMI households, FDIC staff met with community banks individually and in small roundtables. Bankers provided valuable

insights into the need for affordable mortgage credit in the communities they serve. They also discussed the opportunities and obstacles to using federal lending programs, as well as the pros and cons of holding loans in portfolio versus selling loans on the secondary market.

Some bankers described how they have harnessed federal programs, sometimes in combination with other financial mechanisms like Federal Home Loan Bank and State Housing Finance Agency programs, to expand their capabilities and serve a broader customer base. Many banks had relationships with neighborhood housing counseling organizations, which helped provide financial education to potential customers.

Some bankers discussed that very small banks do not have specialized staffing or departments to offer complex mortgage products. They decided that the risk and cost of origination was not worth taking without more resources or additional risk mitigation. Some bankers said that while they want to be involved in mortgage lending, it was difficult to find the time to research potential programs, and that it was challenging to find and retain trained mortgage staff, especially in rural areas.

From these meetings, we concluded that community banks might benefit from a practical reference tool to compare federal programs so they could make an informed decision about which programs might be the right fit for their business plans and strategies to improve lending options available for their communities. In addition, the experience of other lenders that have found ways to use limited resources to harness federal and other resources could provide practical examples that may be instructive to institutions considering these opportunities.

## Scope and Coverage

The Affordable Mortgage Lending Guide describes programs from the U.S. Department of Housing and Urban Development (HUD) and its Federal Housing Administration (FHA), the U.S. Department of Agriculture (USDA), the U.S. Department of Veterans Affairs (VA), the U.S. Treasury Department's Community Development Financial Institutions Fund (CDFI Fund), and Fannie Mae and Freddie Mac, known as Government Sponsored Enterprises (GSEs). The Guide focuses on guarantee, loan purchase, and subsidy programs that can facilitate mortgage lending by insured depository institutions. It includes federal programs that support home purchase, refinance, manufactured housing, and some home improvement lending by banks. It covers programs that are targeted to a variety of communities and individuals including rural, Native American, low- and moderate-income, and veterans.

We discuss the requirements of each program, as well as how to access these programs. Whether you choose to become an agent, a correspondent selling to an aggregator, use a broker, or become an approved seller-servicer, the Guide explains how each of these options work within the particular program. We also discuss underwriting tools available and provide technical information about borrower and loan criteria. This Guide can help you design a process to identify, assist, and support your customers by successfully leveraging these programs.

## Suggestions for How to Use This Guide

Organized by each federal agency and GSE, the overviews and individual program descriptions include information about doing business with the agency, its program requirements, and tips on getting started with the program. Institutions can use this Guide as a one-stop resource to gain an overview of a wide variety of program resources, compare different programs, and to help identify the next steps for program participation.

Each program description includes insights into the program's purpose, technical assistance on how to participate, and identifies potential benefits and challenges for community banks.

### TIPS ON USING THE AFFORDABLE MORTGAGE LENDING GUIDE

- Review the "Contents" page for a list of all programs.
- Read the overview for the federal agency or GSE of interest to determine loan delivery options and other criteria.
- Read the selected program description for specific borrower and loan standards.
- Review "Similar Programs" at the end of each description to compare program requirements with other products.
- Review "Resources" to make sure you have the most up-to-date information on program criteria.
- Select a program that best suits your needs and use the agency/GSE contact information to get started.

A quick review of borrower and loan criteria will help you identify whether the program is suitable for a particular client or a population that you are trying to serve, such as low- and moderate-income borrowers or other hard-to-reach populations. The descriptions identify particular criteria that focus on target segments, underwriting flexibilities, and other standards.

Each program description includes contact information and web links for easy access to program staff that can provide additional information about the program, guide you through getting started, and address other specific requirements for starting the program at your bank.

In order to compare a range of programs to identify what best meets your needs and the needs of your customers, each program description concludes with a list of similar programs for your reference.

Resources are also included in each program description where you can find web links to more

detailed information about the programs provided by the GSE or agency. Where secondary programs (e.g., Community Seconds®) are mentioned within the main program description, a link to that program is also included in the resource section. Finally, links for additional information that are referenced in the program descriptions – such as area/county loan limits, building codes, and lists of high-cost cities and states – are also included in resources.

Because borrower and loan criteria, such as income limits, minimum credit scores, loan-to-value limits, and debt-to-income ratios, are all subject to change (and in many cases revised annually), the Guide provides the most recent information available. Realizing the need for accurate and timely information, each program description includes a list of web links where updates can be found.

## What Bankers are Saying

In addition to the individual meetings with community banks and small roundtable discussions, the FDIC also talked with community bankers about their participation in specific programs. In each federal agency and GSE “Overview,” you will find comments by community bankers who are incorporating federal and GSE programs into their overall mortgage lending strategies. Bankers discuss how they have used these programs to support their business objectives. They also discuss using a variety of delivery options including: serving as an approved third party originator and working with other lenders and investors to underwrite, package and sell loans; acting as a correspondent lender; and becoming an approved seller/servicer of mortgage loans.

## Supporting strong Community Reinvestment Act (CRA) performance

Affordable mortgage lending, including to low-and moderate-income borrowers; to low-and moderate-income census tracts; and to serve people in underserved rural communities, on tribal lands, and in disaster areas can be responsive ways for financial institutions to meet the credit needs of their communities. The mortgage programs featured in this Guide, whether they result in Home Mortgage Disclosure Act (HMDA) reportable

loans or originations reported by another lender, can help lenders reach their business objectives in their communities, as well as contribute to its CRA performance.

## Conclusion

In many parts of the country, community banks play an important role in meeting the demand for mortgage credit. The programs outlined in the Affordable Mortgage Lending Guide can provide community bankers with additional pathways to provide homeownership opportunities for creditworthy borrowers in their communities, particularly those with affordability challenges. These programs may also represent business opportunities for community banks looking for prudent, sustainable financial products to incorporate into their mortgage business line.

Community banks can and do play a valuable role in meeting the demand for affordable mortgage credit, and we hope this Guide provides useful information to assist bankers in considering all the options to serve their communities with prudently underwritten and affordable mortgage products.

While home ownership continues to be a goal for most Americans, many people struggle to gain access to affordable homeownership opportunities that will enable them to build a stable future for their families. Community banks can and do play a valuable role in meeting the demand for affordable mortgage credit, and we hope this Guide provides useful information to assist bankers in considering all the options to serve their communities with prudently underwritten and affordable mortgage products.



AGENCY	PROGRAM NAME	LOW- AND MODERATE-INCOME	FIRST-TIME HOMEBUYER	PURCHASE	REFINANCE	REHABILITATION/ REPAIRS	MANUFACTURED HOMES	NATIVE AMERICANS	VETERANS	VICTIMS OF A DISASTER	RURAL	SENIORS	PERSONS WITH DISABILITIES	PUBLIC SERVANTS
HUD/ FHA	FHA Title I: Property Improvement Loan Insurance				●	●							●	
	FHA Title I: Manufactured Home Loan Insurance	●		●	●		●							
	FHA Title II: 203(b) Mortgage Insurance Program	●		●	●			247 & 248		203(h)				
	FHA Title II: Streamline Refinance				●									
	FHA Title II: Refinance of Borrowers in Negative Equity Positions (Short Refinance)				●									
	FHA Title II: 203(k) Rehabilitation Mortgage Insurance		●	●	●	●								
	184 Indian Home Loan Guarantee Program	●		●	●	●		●					●	
	Good Neighbor Next Door			●										●
USDA	Single Family Housing Guaranteed Loan Program	●	●	●	●	●	●		●		●		●	
	Section 502 Direct Loan	●	●	●		●	variation			variation	●		●	
	Section 504 Repair Loans and Grants	●				●			●		●	●	●	
VA	Home Purchase Loan Program		●	●		●	●	Tribal land	●				●	
	Interest Rate Reduction Refinance Loan				●				●				●	
CDFI FUND	Bank Enterprise Awards	●		●	●	●	●						●	
	CDFI Program	●		●	●	●	●	●						
	Capital Magnet Fund	●		●		●	●							
FANNIE MAE	HomeReady™ Mortgage	●		●	●		●		●				●	●
	Standard 97 Percent Loan-To-Value Mortgage	●	●	●	●									
	HomeStyle® Renovation Mortgage			●	●	●							●	
	Standard Manufactured Housing Mortgage			●	●		●							
	Refi Plus™/ Home Affordable Refinance Program (HARP)				●									
FREDDIE MAC	Home Possible®	●	●	●	●		●							
	Home Possible Advantage <sup>SM</sup>	●	●	●	●									
	Construction Conversion and Renovation Mortgage			●	●	●	●						●	
	Manufactured Home Mortgage			●	●		●						●	
	Relief Refinance <sup>SM</sup> /Home Affordable Refinance Program (HARP)				●		●							

If a program provides special consideration to a group or provides a certain type of housing, this is indicated in the matrix. It does not mean, for example, that a veteran could not use Fannie Mae's Home Possible® program, but rather, the veteran does not receive a special benefit under the program.

## U.S. Department of Housing and Urban Development and Federal Housing Administration

*We have included the most recent information available at the date of publication. At the end of each section, we include a list of resources with web links where you can find updates, as well as information about additional programs and other helpful information related to the subject.*

President Lyndon B. Johnson established the Department of Housing and Urban Development (HUD) in 1965 to confront the nation's housing and urban challenges. While there were a number of federal housing programs before HUD's establishment, HUD consolidated its oversight into a cabinet-level agency. The mission of HUD is "to create strong, sustainable, inclusive communities and quality affordable homes for all." HUD funds and oversees a wide range of community development and housing-related activities aimed at preventing homelessness, providing rental housing, fighting housing discrimination, enhancing community and economic development activities, and increasing homeownership opportunities.

The Federal Housing Administration (FHA), the largest mortgage insurer in the world, is part of HUD. FHA increases homeownership opportunities in the United States by expanding mortgage financing opportunities and has historically provided stability to the housing market during times of economic crisis.

### OVERVIEW OF THE FEDERAL HOUSING ADMINISTRATION

The Federal Housing Administration provides mortgage insurance that protects lenders in case of borrower default. It predates the secondary mortgage market, having been created in 1934 as a way to stimulate the housing industry during the Great Depression. Because FHA lending parameters allow for higher loan-to-value ratios and somewhat lower borrower credit scores than are typical for prime conventional loans, FHA has been an important source of mortgage credit for households that might otherwise find it difficult to obtain this credit, such as low- and

moderate-income households and first-time homebuyers. FHA's volume generally varies based on the credit standards of other sources of mortgage financing and on the fees it charges. Lenders are protected by FHA's Mutual Mortgage Insurance (MMI) Fund, which is sustained by borrower premiums.

FHA business is primarily conducted by four regional Home Ownership Centers, or HOCs, in Atlanta, Philadelphia, Denver, and Santa Ana. Although lenders should send their questions to the FHA Resource Center (not the HOC) for immediate acknowledgement and tracking, certain case-specific issues are subsequently referred to the appropriate center.

### GINNIE MAE

Ginnie Mae is short for Government National Mortgage Association. Ginnie Mae guarantees to investors the timely payment of principal and interest on mortgage-backed securities (MBS) backed by federally insured loans, including those insured by the Federal Housing Administration, the U.S. Department of Veterans Affairs, the U.S. Department of Agriculture's Rural Development, and the U.S. Department of Housing and Urban Development Office of Public and Indian Housing.

Ginnie Mae neither originates nor purchases mortgage loans, nor does it purchase, sell, or issue securities. Instead, private entities approved by Ginnie Mae pool eligible loans that they have originated and/or purchased from other originators and issue Ginnie Mae-guaranteed securities that are backed by these pools. Ginnie Mae securities are the only MBS guaranteed by the federal government.

This section describes the paths by which a bank may become an FHA lender, provides information on resources for banks that participate or are considering participation, and describes the secondary market for FHA loans before turning to descriptions of FHA programs. While most single-family homeownership programs are covered under Title II of the National Housing Act of 1934; certain types of specialized mortgage lending, like small-scale renovations and manufactured housing, are covered under Title I of the Act.

#### Title I programs covered in this section:

**Property Improvement Loan Insurance:** Affordable loan insurance for light or moderate renovations to a variety of residential and non-residential properties.

**Manufactured Home Loan Insurance:** Insures mortgages for manufactured homes that are classified as personal property or chattel (meaning moveable property). The mortgages may also finance a lot on which to place a manufactured home.

#### Title II programs covered in this section:

**203(b) Mortgage Insurance Program:** The core FHA single-family mortgage insurance program, which allows low down payments for the purchase of a primary residence or for refinancing a mortgage. In addition to a discussion of the basic program, special features for certain populations and geographies that experience higher barriers to credit access are covered.

**Streamline Refinance:** Allows homeowners to refinance an existing FHA-insured loan to a lower interest rate or to a different type of mortgage with reduced documentation and underwriting standards, saving on transaction costs.

**Refinancing of Borrowers in Negative Equity Positions (Short Refinance):** Helps responsible homeowners who are current on their mortgage but owe more than the home is worth to reduce the amount owed by offering incentives to lenders that write down the principal balance.

**203(k) Rehabilitation Mortgage Insurance:** Mortgage insurance for loans that finance both the purchase of a home (or refinance of an existing mortgage) and renovation costs in a single mortgage.

#### Other programs covered in this section:

**Section 184 Indian Home Loan Guarantee Program:** Provides access to credit for American Indian and Alaska Native families, Alaska Villages, Tribes, or Tribally Designated Housing Entities.

**Good Neighbor Next Door:** Provides a discount on the purchase price for public servants (teachers, police, firefighters, military) to purchase HUD-owned homes in certain distressed communities.

## TITLE I PROGRAMS IN THIS SECTION:

### Property Improvement Loan Insurance:

Affordable loan insurance for light or moderate renovations.

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**203(b) Mortgage Insurance Program:** The core FHA single-family mortgage insurance program, which allows low down payments for the purchase or refinancing of a primary residence.

**Streamline Refinance:** Allows homeowners to refinance an existing FHA-insured loan to a lower interest rate or to a different type of mortgage.

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## DOING BUSINESS WITH THE FHA

### Benefits

FHA's low down payment 203(b) flagship program has helped millions of borrowers purchase their first homes and is one of the most recognized mortgage loan products available today. Developing the expertise needed to understand FHA's expectations for lender operations and loan delivery can be complicated; however, there are resources to help community banks. The FHA also insures loans for manufactured housing, rehabilitation, and for improvements on existing homes, so doing business with FHA may offer a significant set of new opportunities to serve a wide range of borrower needs.

### Delivery Options

Community banks can participate two ways in FHA single-family programs. First, a bank may become an approved supervised lender with direct endorsement (DE) authority. Banks granted full FHA approval authority can originate, underwrite, fund, and service FHA-insured single-family loans. Or, a bank can become an FHA third-party originator (TPO), which allows origination only.

Smaller lenders often turn to investors or aggregators to help them carry out underwriting, funding, and/or secondary market sales functions. Correspondent lenders typically fund loans in their own names and then sell them to investors, who in turn sell the loans into the secondary market. In some cases, the correspondent lenders handle the underwriting in-house. In others, the investor acts as the underwriter. Smaller lenders that are interested in originating loans but do not have the internal capacity to either underwrite or fund the loans can also work with investors to carry out the origination function while looking to the investor to underwrite and fund the loans in the name of the investor. Many state and local housing finance agencies, as well as certain Federal Home Loan Banks, also work directly to provide mortgage-lending options.<sup>1</sup>

### Originating FHA loans as a third-party originator through an approved lender sponsor

Non-FHA approved banks can originate FHA loans without going through the formal FHA approval process by working with an FHA-approved sponsor. Becoming a TPO can be useful to banks that are interested in offering FHA loans to their customers, but may not meet minimum standards or have the internal capacity needed for FHA lending, or that wish to avoid the additional costs associated with FHA approval and annual recertification.

TPOs originate FHA loans that are underwritten and funded in the name of a sponsoring FHA-approved lender. However, as a TPO, the bank is subject to both FHA loan standards and those of the sponsoring lender, sometimes referred to as overlays. In addition, TPO banks are reliant on their sponsoring lenders for underwriting approval and funding timelines. For these reasons and others, banks may choose to become an approved FHA supervised lender with direct endorsement authority.

### Originating FHA loans as an approved supervised lender with direct endorsement authority

To originate, underwrite, and fund FHA loans, a lending institution must be approved by HUD as an FHA lender.

**Approval process:** Banks must follow a two-step approval process in order to gain this status.

#### 1. Conditional authority (basic lender approval).

Conditional authority is the authority of a bank that has applied for and received basic FHA mortgagee approval. A bank applying for this status must meet minimum financial and operational standards pertaining to net worth, liquidity, staffing, and quality control that are laid out for FHA supervised lenders. Banks applying for underwriting authority must have an underwriter on permanent staff. In addition, the bank must have five years of experience in the origination of single-family mortgages, or a principal officer with a minimum of five years managerial experience in the origination of single-family mortgages.

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<sup>1</sup> Detailed information regarding State Housing Finance Agencies and Federal Home Loan Banks will be addressed in later FDIC publications.

Banks that are considered large entities as defined by the U.S. Small Business Administration (SBA), (net worth greater than \$500 million) are required to submit audited financial statements, both at the time of application and as part of an annual recertification process. Banks with a net worth of less than \$500 million are required to submit a copy of their call reports each year.

A bank interested in becoming an FHA-approved lender can submit an online application through the FHA Lender Approval and Recertification Division. The bank must receive separate approval for making Title I loans and Title II loans, but can apply for both at the time of its initial application. Should a bank apply initially only for Title I or Title II approval status, it can apply for the other status later.

Although a bank can originate FHA loans once it has been approved as an FHA supervised lender, it is not eligible to underwrite FHA loans until it receives FHA direct endorsement authority.

**2. Direct endorsement authority.** Once a bank has received conditional authority, it must obtain unconditional direct endorsement authority to underwrite, fund, and submit FHA loans directly for endorsement.

Many mortgage-insuring processes are centralized into four FHA Single Family Homeownership Centers, each supporting a specific geographic area. In order to receive unconditional direct endorsement authority, banks must contact a HOC and submit 15 FHA loan files for “pre-closing review” to be approved by FHA before closing within 12 consecutive months. The cases are submitted for underwriting analysis and appraisal review. Either the HOC will issue a firm commitment (approval) or firm reject (denial) for each case submitted. Cases that receive a firm commitment are approved to close and be submitted for insurance endorsement. Upon receipt of 15 firm commitments, and a determination that the lender has demonstrated an acceptable understanding of FHA underwriting and other requirements, the lender is granted full and unconditional DE approval.

One or more designated underwriters employed by the bank must serve as the bank’s FHA subject matter expert(s) as designated DE underwriters. The underwriter’s role and responsibilities are critical elements of the Direct Endorsement Program and include ensuring

loans comply with FHA policies and procedures from the underwriting and verification process through loan closing and certification. DE underwriters must have a minimum of three years of recent full-time underwriting experience.

DE lenders must complete an endorsement process for each FHA loan after closing. Most DE lenders submit the insurance application electronically through the FHA Connection electronic system and prepare an FHA case binder for review by the HOC, which will determine whether the files meet the necessary requirements.

## Lender Insurance Program

The Lender Insurance (LI) Program enables high-performing FHA-approved DE lenders to endorse FHA mortgage loans without a pre-endorsement review. To become an LI lender, DE lenders must have a claim/default rate at or below 150 percent of the national average for at least two years before its application for participation in the LI Program.

## Selling FHA Loans

Lenders do not typically keep FHA loans in their portfolios. Instead, they are generally pooled and used as collateral for mortgage-backed securities (MBS). FHA does not purchase and securitize loans. Instead, FHA loans are delivered to the secondary market through Ginnie Mae’s guaranteed mortgage-backed securities. Securities are issued by private financial institutions and payments to investors in these securities are guaranteed by Ginnie Mae, a government office within HUD. FHA-approved lenders can deliver FHA-endorsed loans as MBS by becoming a Ginnie Mae approved issuer or by selling FHA loans to third-party Ginnie Mae approved industry conduits or aggregators. Industry conduits include the new FHLBank Ginnie Mae Mortgage Partnership Finance® program as well as the Independent Community Bankers of America’s (ICBA) Correspondent Lending Program and other financial institutions that purchase FHA loans. See resources at the end of this section for a list of Ginnie Mae approved issuers.

## System Requirements and Quality Control

FHA loans can be manually or electronically underwritten. All FHA loans are required to go through the FHA TOTAL Mortgage Scorecard system except Streamline Refinances. The TOTAL Mortgage Scorecard is based on a number of credit variables and, when combined with an automated underwriting system's functionalities, is used to provide an underwriting recommendation that either deems the borrower's credit acceptable or requires the loan to be underwritten manually.

All FHA-approved mortgagees must also implement and continuously have in place a written quality control plan for the origination and/or servicing of FHA-insured mortgages to assure compliance with FHA's origination and servicing requirements and to protect against unacceptable risk and fraud. The quality control function must be independent of the origination and servicing functions and can be fulfilled by using in-house staff or an outside firm.

## Neighborhood Watch Early Warning System

Neighborhood Watch is an electronic database and monitoring system intended to help HUD/FHA staff and FHA lenders analyze the Title II loan performance of FHA lenders. Neighborhood Watch data can be used to compare a specific lender's FHA loan performance against other lenders in the geographic area in order to help identify and address potential problems related to early delinquency patterns. Specifically FHA uses a "compare ratio" to compare a lender's early default rate (typically the percentage of loans that are 90 days or more delinquent within the first two years of origination) against those operating within the same region. Lenders with a compare ratio at twice the average or higher are subject to disciplinary action. More information about Neighborhood Watch can be found at <https://entp.hud.gov/sfnw/public/>.

## RESOURCES

**FHA Handbook:** Lender's guide to the FHA single- family mortgage insurance process.

<http://portal.hud.gov/hudportal/documents/huddoc?id=41552HSGH.pdf>

**FHA-approved lender sponsors**

<http://www.hud.gov/ll/code/llslcrit.cfm>

**FHA lender approval application**

<https://www5.hud.gov/FHALender/>

**FHA lender approval application instructions**

[http://portal.hud.gov/hudportal/documents/huddoc?id=SFH\\_LEND\\_REQAPPROVAL-LEAP.PDF](http://portal.hud.gov/hudportal/documents/huddoc?id=SFH_LEND_REQAPPROVAL-LEAP.PDF)

**Homeownership Centers and areas served**

<https://entp.hud.gov/clas/info2.cfm#hocs>

**FHA quality control requirements**

[http://portal.hud.gov/hudportal/documents/huddoc?id=sfh\\_draft\\_qc\\_mortgagees.pdf](http://portal.hud.gov/hudportal/documents/huddoc?id=sfh_draft_qc_mortgagees.pdf)

**Neighborhood Watch**

<https://entp.hud.gov/sfnw/public/>

**Doing Business with Ginnie Mae**

<http://www.ginniemae.gov/pages/default.aspx>

**Ginnie Mae approved issuers**

[http://www.ginniemae.gov/issuers/third\\_party\\_providers/Pages/document\\_custodian.aspx](http://www.ginniemae.gov/issuers/third_party_providers/Pages/document_custodian.aspx)

**FHA Connection Electronic System**

<https://entp.hud.gov/clas/index.cfm>

**FHA Lender Insurance Program**

[http://portal.hud.gov/hudportal/HUD?src=/program\\_offices/housing/sfh/lender/lendins](http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/lender/lendins)

**FHA TOTAL Mortgage Scorecard**

[http://portal.hud.gov/hudportal/HUD?src=/program\\_offices/housing/sfh/total](http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/total)



### Using FHA's Section 203(b) Mortgage Insurance Program

*The FDIC talked with community bankers about their participation in the Federal Housing Administration's Section 203(b) Mortgage Insurance Program. The following are excerpts from these discussions.*

The Section 203(b) Mortgage Insurance Program is the core FHA single-family mortgage insurance program, which allows low down payments for the purchase of a primary residence or for refinancing a mortgage.

#### Working with the FHA

One small community bank recently decided to add home mortgage loans to its line of products. The bank representative explained that as the bank did its product evaluation, management concluded that the Federal Housing Administration's (FHA) Section 203(b) Mortgage Insurance Program would be of interest in the local market.

The lender added that the bank wanted to offer a loan that would help first-time homebuyers who needed a lower down payment option. Aligning that market need with the bank's policy of selling 100 percent of the mortgage loans it originates into the secondary market led them to the Section 203(b) Mortgage Insurance Program.

#### Becoming an FHA Lender

The banker said that one challenge to its plan to originate FHA loans was that the bank would be unable to gain approval as an FHA direct endorsement (DE) lender because it fell short of the requirements for audited financials and minimum asset levels set by the FHA. The bank, therefore, chose to pursue table funding. Under this arrangement, the bank acts as an FHA-sponsored third-party originator (TPO) to originate the loan and then works with an FHA-approved direct endorsement (DE) sponsoring lender or mortgagee to underwrite and fund the loan.

As a TPO, the bank meets with the borrowers and originates and processes the initial loan application,

including collecting FHA-required documentation. The bank then sends the loan file to the FHA DE mortgagee that underwrites the loan and communicates any outstanding closing conditions that need to be satisfied by the borrower back to the bank. Once fully approved, the mortgagee initiates the closing and the loan is funded and closed in the mortgagee's name.

The representative said, "The first table-funding FHA-approved mortgagee that the bank worked with took too long to get the approval in place due to a cumbersome process. However, once we identified more effective DE partners, established clear and open lines of communication, and initiated the process to become approved to originate FHA loans as a TPO, we were able to get up and running within a couple of months." She went on to say that "the quality of the DE sponsoring lender can make a huge difference in the efficiency of the loan approval process. When you have an outstanding issue on a loan during the underwriting process, you want to know that you and your sponsoring lender will be working as a team to resolve the issue as effectively and efficiently as possible."

#### Challenges of Offering FHA Loans

When asked what the biggest challenge is with using the FHA 203(b) product, one of the representatives stated that it is forming an effective partnership with a strong FHA approved DE underwriter. As the originator of the loan, the bank is responsible for meeting with borrowers, taking loan applications, and collecting FHA-required documentation. Even after completing an origination package and sending it off to the underwriter, back-and-forth communications and competing business priorities of the underwriter (including transactions with other TPOs) occasionally extend wait times.



Another banker who is also a TPO pointed out that “the biggest challenge my bank has is that since we are not the lender, we do not have as much control over the approval as we do with loans that we underwrite ourselves; however, in our experience, the FHA product is really not difficult [to originate] once you gain some experience.” The representative went on to say that his bank only does a few mortgages a year, but has been making Section 203(b) loans for the past eight years so customers can benefit from the 15-year and 30-year terms. “If you are already originating mortgage loans, the learning curve is fairly easy.”

### **Benefits of Offering FHA Loans**

One bank representative said that her bank combines the FHLBank of Cincinnati’s Welcome Home program with its FHA loans. Welcome Home provides up to \$5,000 for down payments and closing costs to eligible homebuyers with a minimum subsidy match of \$500 provided by the borrower.

Another banker added that his bank combines the FHA 203(b) product with grants from the Federal Home Loan Bank of Topeka. He said that overall, FHA loans are not a significant portion of the bank’s mortgage lending business, but having it available is very important because it gives customers more options.

One banker estimated that 95 percent of her bank’s FHA loans are for first-time homebuyers, including many younger borrowers who have not had the time or the financial experience to build a high credit score. She noted that FHA’s credit score thresholds can be lower than government-sponsored enterprise (GSE) low down payment programs. Another helpful feature for young borrowers is the ability to use gift funds from relatives to cover a portion of the down payment and closing costs. Older, more established family members helping younger relatives buy their first home is a common and long-standing tradition in many communities, which FHA guidelines generally support. The representative also points out that many renters can actually save money by becoming homeowners. “Rents are high and it’s often cheaper to buy a home than to rent.”

## Property Improvement Loan Insurance

### Insuring loans for borrowers to improve their property

#### BACKGROUND AND PURPOSE

The Title I Property Improvement Loan Insurance program insures loans that lenders make to borrowers to finance alterations and repairs of single-family, multi-family, and nonresidential properties. Loans may also finance site improvements, as well as construction of nonresidential properties, as long as the nonresidential uses are subordinate to the residential uses and consistent with the property's zoning. The program is designed to help low- and moderate-income (LMI) borrowers improve their homes and is an alternative for homeowners with limited home equity, who cannot use their home's equity to finance significant home repairs. The home improvements can be conducted by the homeowner themselves or through a contractor. The improvements must substantially protect or improve the basic livability or utility of the property. In general, improvements must be permanent, hard-wired, or hard-plumbed to the property. FHA insures

lenders against the risk of default for up to 90 percent of the loan.

This program differs from FHA's Section 203(k) Rehabilitation loan program in that a Title I Property Improvement Loan only covers the amount of the proposed repairs, not the purchase of the property. The two programs can be used together on the same home. Title I Property Improvement Loans are typically second or subordinate liens. Only lenders approved by HUD specifically for this program can make loans covered by Title I insurance.

#### BORROWER CRITERIA

**Income limits:** This program has no income limits.

**Credit:** There is no minimum credit score requirement for the program, but HUD expects that lenders will undertake a thorough review of the borrower's credit

PROGRAM NAME	Property Improvement Loan Insurance
AGENCY	Federal Housing Administration
EXPIRATION DATE	Not Applicable
APPLICATIONS	To participate, lenders must be FHA-approved for the Title I loan program. Lenders may access FHA's Lender Requirements and the online lender application at: <a href="http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/lender/lendappr">http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/lender/lendappr</a>
WEB LINK	<a href="http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/title/title-i">http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/title/title-i</a>
CONTACT INFORMATION	Telephone: (800) CALL-FHA (225-5342) Email: <a href="mailto:answers@hud.gov">answers@hud.gov</a> . Lenders that want to apply for FHA approval should include the words "New Applicant" in the email subject line and include a contact person and phone number in the email body so that a Lender Approval representative may contact you.
APPLICATION PERIOD	Continuous
GEOGRAPHIC SCOPE	National

history by pulling a credit report, verifying employment, and checking that the borrower is not delinquent or in default on a federally guaranteed loan obligation.

**First-time homebuyers:** First-time homebuyers can take advantage of the program as long as they have or take title of the property at closing. The home must have been occupied for at least 90 days. This does not exclude first-time homebuyers; rather it is designed to avoid using the program to bail out builders of new homes.

**Occupancy and ownership of other properties:** Title I loans may be used to finance permanent property improvements that protect or improve the basic livability or utility of the property, including manufactured homes, single-family and multifamily homes, nonresidential structures, and the preservation of historic homes. The loans can also be used for fire safety equipment. Funds can be used to finance the construction of a nonresidential structure on the property, as long as the nonresidential uses are subordinate to the residential uses and consistent with the property's zoning. To be eligible for a Title I loan, borrowers must be:

1. the owner of the property being improved;
2. the person leasing the property (if the lease extends at least six months after the loan is scheduled to be fully repaid); or
3. someone purchasing the property under a land installment contract.

**Special populations:** There is no targeted population, but the program is a tool for both homeowners and persons leasing the property to make improvements.

**Special assistance for persons with disabilities:** Title I loans can be used for improvements that make the home more accessible to a disabled person. Improvements can include remodeling kitchens and baths for wheelchair access, lowering kitchen cabinets, or installing wider doors and exterior ramps.

**Verification of property improvements:** Loan proceeds must be used only for purposes established in the loan application. If the borrower uses a dealer to execute the improvement work, the lender must receive a copy of the proposal or contract describing in detail the work to be performed and cost estimates. If the borrower is completing the improvements, they must provide the lender with a detailed written description of the work, materials, and cost.

List of acceptable property improvements:

- Improvements for accessibility to a disabled person such as remodeling kitchens and baths for wheelchair access, lowering kitchen cabinets, installing wider doors and exterior ramps, and the like.
- Improvements must protect or improve the livability or utility of the property.

## POTENTIAL BENEFITS

HUD-approved Title I lenders can offer improvement loans for various property types including manufactured home properties. The manufactured home is not required to be real property. However, in order to use the loan to finance site improvements, the borrower must comply with the criteria for owning, or otherwise being authorized to execute liens against the underlying land.

Title I property improvement loans can be originated currently with the purchase or refinance of an existing property. The loans may also be originated at any point after the property purchase.

## POTENTIAL CHALLENGES

The lender must be approved by HUD as a Title I lender.

Lenders that want to offer dealer loans, where a contractor helps the borrower with financing instead of directly lending to the borrower, must approve the dealers through a separate process. The lender must verify that the property improvement dealer has a net worth of \$25,000 and meets HUD guidelines. A jointly signed HUD-approved form documents the approval and lenders must annually recertify the dealers to whom they extend dealer loans.

- Loans cannot be used to finance luxury-type items such as swimming pools or outdoor fireplaces, or to pay for work completed before the loan application.
- Loan proceeds may be used for alterations and/or repairs of single-family, multifamily, and nonresidential property types and for site improvements.

## LOAN CRITERIA

**Loan limits:** Title I approved lenders can offer eligible borrowers improvement loans for up to 20 years on either single-family or multifamily properties. The maximum loan amount is \$25,000 for a single-family home or to build a nonresidential structure. To improve a two- to four-unit structure, the maximum loan amount is \$12,000 per family unit, not to exceed a total of \$60,000 for the structure.

**Loan-to-value limits:** The program does not limit the loan-to-value ratio and borrowers are not required to have equity in the property. A loan amount greater than \$7,500 must be secured by a recorded lien on the improved property. The lien does not have to be a first lien on the property, but it must not be placed in less than second position. A Title I loan may be secured in third place by exception when the first and second loans were originated to finance the property's purchase.

**Adjustable-rate mortgages:** Lenders must offer fixed-rate loans (no adjustable-rate terms are permitted) and charge market-rate interest.

**Homeownership counseling:** Housing counseling is not required for participation in the program.

**Mortgage insurance:** FHA insures private lenders against the risk of default for up to 90 percent of any single loan. The annual premium for this insurance is \$1 per \$100 of the amount advanced. The insurance premium may be charged to the borrower separately, but it is sometimes covered by a higher interest charge.

**Debt-to-income ratio:** The borrower must have a maximum DTI of 45 percent, meaning total fixed expenses (including payments on the property improvement loan) may not exceed 45 percent of effective gross income. In the event the borrower has student loan debt and is not yet in repayment, as is the case for current students, FHA's policy is to include 2 percent

of the total student loan balance in the debt-to-income calculation.

**Refinance:** Borrowers may refinance with the Title I lender that holds the note.

## Potential Benefits

- HUD-approved Title I lenders can offer improvement loans for various property types including manufactured home properties. The manufactured home is not required to be real property. However, in order to use the loan to finance site improvements, the borrower must comply with the criteria for owning, or otherwise being authorized to execute liens against, the underlying land.
- Title I property improvement loans can be originated concurrently with the purchase or refinance of an existing property. The loans may also be originated at any point after the property purchase.
- No security or co-signer is needed for loan amounts below \$7,500.
- Loans originated through this program may be positively considered under the Community Reinvestment Act, depending on the geography or incomes of the participating borrowers.

## Potential Challenges

- The lender must be approved by HUD as a Title I lender.
- Lenders that want to offer dealer loans, where a contractor helps the borrower with financing, instead of directly lending to the borrower, must approve the dealers through a separate process. The lender must verify that the property improvement dealer has a net worth of \$25,000 and meets HUD guidelines. A jointly signed HUD-approved form documents the approval and lenders must annually recertify the dealers to whom they extend dealer loans.
- The lender must be familiar with the unique forms and requirements of this program.

## SIMILAR PROGRAMS

- FHA 203(k) Rehabilitation Mortgage Insurance
- USDA Section 504 Repair Loan/Grant Program

## RESOURCES

### General information

[http://portal.hud.gov/hudportal/HUD?src=/program\\_offices/housing/sfh/title/title-i](http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/title/title-i)

**HUD Handbook 1060.2 REV-6 for Title I Property Improvement and Manufactured Home Loans** (issued in 1996 and includes program rules)

<http://portal.hud.gov/hudportal/documents/huddoc?id=10602HSGH.pdf>

**HUD Handbook 4000.1** (issued August 26, 2015)

<http://portal.hud.gov/hudportal/documents/huddoc?id=40001HSGH.pdf>

**Title I Letter TI-473, "Publication of Final Rule on November 7, 2001 Regarding: Strengthening the Title I Property Improvement and Manufactured Home Loan Insurance Programs and Title I Lender/Title II Mortgagee Approval Requirements"** (includes insurance premium information)

[http://portal.hud.gov/hudportal/HUD?src=/program\\_offices/administration/hudclips/letters/title1](http://portal.hud.gov/hudportal/HUD?src=/program_offices/administration/hudclips/letters/title1)

**Title I Lender Letter TI-470, "Clarifications to the Title I Property Improvement Program"** (includes debt-to-income information)

[http://portal.hud.gov/hudportal/HUD?src=/program\\_offices/administration/hudclips/letters/title1](http://portal.hud.gov/hudportal/HUD?src=/program_offices/administration/hudclips/letters/title1)

**HUD Guidelines for Dealers** (see section 201.27 "Requirements for dealer loans" in HUD Handbook 1060.2 REV-6)

<http://portal.hud.gov/hudportal/documents/huddoc?id=10602HSGH.pdf>

**Dealer/Contractor Application Form HUD-55013** (to be completed by lender)

<http://portal.hud.gov/hudportal/documents/huddoc?id=55013.pdf>

## Manufactured Home Loan Insurance

Providing affordable homeownership opportunities through manufactured home loans, lot loans, and home/lot combination loans

### BACKGROUND AND PURPOSE

Manufactured homes have traditionally been financed as personal property through higher interest, short-term chattel loans. The Manufactured Home Loan Insurance program increases the availability of affordable financing for buyers of manufactured homes by offering longer term and lower interest rate financing than with conventional loans. A manufactured home need not be treated as real property under state law to be eligible for this program. The U.S. Department of Housing and Urban Development (HUD) has provided this type of loan insurance since 1969.

The Manufactured Home Loan Insurance program through Federal Housing Administration (FHA) insures mortgages made by private lenders that finance the purchase or refinance of a manufactured home and/or the lot on which the home is located. The program offers insurance for three types of loans: (1)

manufactured home loan, (2) manufactured home lot loan, and (3) manufactured home land and lot combination loan. FHA will pay 90 percent of the loss while the lender agrees to absorb 10 percent of the loss on a valid claim.

### BORROWER CRITERIA

**Income limits:** This program has no income limits.

**Credit:** HUD has not established a minimum credit score level for the program. The score will affect only the amount of down payment required, not program eligibility.

**First-time homebuyers:** The program is not limited to first-time homebuyers and can be used to refinance the property.

PROGRAM NAME	Manufactured Home Loan Insurance
AGENCY	Federal Housing Administration
EXPIRATION DATE	Not Applicable
APPLICATIONS	To participate, lenders must be FHA-approved for the Title I loan program. Lenders may access FHA's Lender Requirements and the online lender application at <a href="http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/lender/lendappr">http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/lender/lendappr</a>
WEB LINK	<a href="http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/title/manuf14">http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/title/manuf14</a>
CONTACT INFORMATION	Telephone: (800) CALL-FHA (225-5342) Email: <a href="mailto:answers@hud.gov">answers@hud.gov</a> . Lenders that want to apply for FHA approval should include the words "New Applicant" in the email subject line and include a contact person and phone number in the email body so that a Lender Approval representative may contact you.
APPLICATION PERIOD	Continuous
GEOGRAPHIC SCOPE	National

**Occupancy and ownership of other properties:** Borrowers must occupy the property as their primary residence. The program is limited to the purchase or refinance of a manufactured home with or without the lot on which the home is placed. HUD defines a manufactured home as a transportable structure comprised of one or more modules, each built on a permanent chassis. The manufactured home must be the primary residence for a single family. The manufacturer of the home must comply with HUD safety and livability standards and certify it as compliant by affixing the “HUD Seal” to each home. The purchase loan may also be used to finance accessories offered by the dealer including the cost for skirting, garage, carport, patio, or other comparable appendage to the home. The combination home and lot loan product provides insurance for purchase of a parcel of real estate that is used for placement of the approved manufactured home unit.

**Required documentation:** The borrower must complete a credit application form (HUD-56001-MH).

## LOAN CRITERIA

**Loan limits:** Title I insurance may be used for loans of up to \$92,904 for a manufactured home and lot and \$23,226 for a lot only. A HUD-approved appraiser must appraise the lot.

**Loan-to-value limits:** Borrowers with a credit score of 500 or lower are required to make a minimum down payment of 10 percent for a maximum LTV of 90 percent. Borrowers with a credit score above 500 are required to make a 5 percent minimum down payment for a maximum LTV of 95 percent.

**Adjustable-rate mortgages:** Adjustable-rate products are not permitted.

**Down payment sources:** Borrowers are responsible for paying the down payment. No part of the costs payable by the borrower may be loaned, advanced, or paid to or for the benefit of the borrower by the dealer, the manufacturer, or any other party to the loan transaction. If the borrower obtains all or any part of such costs through a gift or a loan from some other source, the borrower must disclose the source of such gift or loan on the credit application.

**Homeownership counseling:** Housing counseling is not required for participation in the program, but it is recommended for all first-time homebuyers.

**Mortgage insurance:** The program has different standards than other FHA-insured single-family programs. The upfront mortgage insurance premium (UFMIP) is the obligation of the lender, but may be passed on to the borrower and must not exceed 2.25 percent. The annually adjusted mortgage insurance premium (MIP) is paid monthly and must not exceed 1.0 percent of the remaining insured principal.

**Debt-to-income ratio:** Similar to other FHA-insured single-family programs, HUD requires lenders to calculate two ratios to determine if a

## POTENTIAL BENEFITS

The insurance provided by FHA under this program helps protect community banks from credit risk, though the coverage provided is 90 percent of the loss as opposed to 100 percent for other FHA programs.

In many states, manufactured homes are considered personal property rather than real estate. Title I insurance, backed by the FHA, helps families finance homes classified as personal property and where conventional financing may be limited.

## POTENTIAL CHALLENGES

HUD must approve lenders to participate in the Title I program before they can offer the loan product.

A HUD-approved appraiser must appraise the lot. In some areas of the country, it can take 30-60 days to complete the appraisal.



borrower can reasonably meet the expected expenses. First, the Mortgage Payment Expense to Effective Income ratio (or front-end DTI) should not exceed 31 percent. Second, the Total Fixed Payment to Effective Income ratio (or back-end DTI) should not exceed 43 percent. Ratios that exceed 31 percent or 43 percent may be acceptable if the lender documents qualified "significant compensating factors." The ratios increase to 33 percent and 45 percent when the home being financed can be documented as Energy Star compliant. In the event the borrower has student loan debt and is not yet in repayment, as is the case for current students, FHA's policy is to include 2 percent of the total student loan balance in the debt-to-income calculation. For example, if the student has a current debt of \$20,000, then FHA would add \$400 to the DTI calculation.

**Refinance:** Allowed.

**Financing fees:** The interest rate is set by the lender.

**Loan parameters:** Loan limits and terms were updated in 2008 because of the FHA Manufactured Housing Loan Modernization Act of 2008. (See *below*.)

**Dealers:** Dealers are the persons or firms that make manufactured home retail sales, and it is common for dealers to establish a formal business relationship with a lender to facilitate financing for the purchaser. Lenders must verify the dealer's financial statements and submit a Dealer/Contractor Application form (HUD-55013) to HUD before working with dealers to provide Title I financing to borrowers.

**Trade equity from existing Manufactured Housing:** Many manufactured home dealers offer equity-like contributions for home purchasers who trade in an old model of home to buy a new one, similar to an automobile trade-in program. The maximum equity contribution from the traded manufactured home is the lesser of the appraised value or sales price. Any costs resulting from the removal of the manufactured home or any outstanding indebtedness secured by liens on the manufactured home must be deducted from the maximum equity contribution. Trade-ins for cash funds are considered a seller inducement and are not permitted. Land equity is not addressed as a potential equity contribution.

Loan Parameters

LOAN TYPE	PURPOSE	LOAN LIMIT	MAXIMUM LOAN TERM
Manufactured home loan	To purchase or refinance a manufactured home unit	\$69,678	20 years, plus 32 days
Lot loan	To purchase and develop a lot on which to place a manufactured home	\$23,226	15 years, plus 32 days
Combination loan for lot and home	To purchase or refinance a manufactured home and lot on which to place the home	\$92,904	20 years, plus 32 days (25 years for multi-unit homes)



## Potential Benefits

- The insurance provided by FHA under this program helps protect community banks from credit risk, though the coverage provided is 90 percent of the loss as opposed to 100 percent for other FHA programs.
- In many states, manufactured homes are considered personal property rather than real estate. Title I insurance, backed by the FHA, helps families finance homes classified as personal property and where conventional financing may be limited.
- The Manufactured Home Loan Insurance program may allow community banks to expand their customer base in low- and moderate-income communities.
- The Manufactured Home Loan Insurance program may help community banks access the secondary market, providing greater liquidity to enhance their lending volume.
- The Manufactured Home Loan Insurance program offers competitive pricing and terms.
- Loans originated through the Manufactured Home Loan Insurance program can be considered favorably during the bank's Community Reinvestment Act evaluation, depending on the geography and incomes of the participating borrowers.

## Potential Challenges

- HUD must approve lenders to participate in the Title I program before they can offer the loan product.
- A HUD-approved appraiser must appraise the lot. In some areas of the country, it can take 30-60 days to complete the appraisal.
- The FHA-approved lender is also responsible for approving manufactured home dealers to participate in the program.

## SIMILAR PROGRAMS

- Fannie Mae Manufactured Home Loan
- Freddie Mac Manufactured Home Loan

## RESOURCES

### General information

[http://portal.hud.gov/hudportal/HUD?src=/program\\_offices/housing/sfh/title/manuf14](http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/title/manuf14)

### Applications

[http://portal.hud.gov/hudportal/HUD?src=/program\\_offices/housing/sfh/lender/lendappr](http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/lender/lendappr)

**HUD Handbook 4000.1** (issued August 26, 2015)

<http://portal.hud.gov/hudportal/documents/huddoc?id=40001HSGH.pdf>

### Title I Letter TI-481, "Changes to the Title I Manufactured Home Loan Program"

(details major changes to the program made by The FHA Manufactured Housing Loan Modernization Act of 2008 and includes updated loan limit, LTV rates, insurance premium, and underwriting criteria)

[http://www.manufacturedhousing.org/admin/template/subbrochures/TITLE\\_I\\_LTR.pdf](http://www.manufacturedhousing.org/admin/template/subbrochures/TITLE_I_LTR.pdf)

**Borrower Credit Application Form HUD-56001-MH** (to be completed by borrower)

<http://portal.hud.gov/hudportal/documents/huddoc?id=56001mh.pdf>

**Dealer/Contractor Application Form HUD-55013** (to be completed by lender)

<http://portal.hud.gov/hudportal/documents/huddoc?id=55013.pdf>

**HUD Handbook 4155.1 section 4.F.3.b** (includes descriptions of significant compensating factors)

[http://portal.hud.gov/hudportal/documents/huddoc?id=4155-1\\_4\\_secF.pdf](http://portal.hud.gov/hudportal/documents/huddoc?id=4155-1_4_secF.pdf)

## 203(b) Mortgage Insurance Program

Affordable low down payment lending traditionally for first-time homebuyers and underserved communities

### BACKGROUND AND PURPOSE

The 203(b) mortgage insurance program, or the Basic Home Mortgage Loan, is the centerpiece of all FHA mortgage insurance programs for one- to four-unit residential properties. The purpose of the Section 203(b) program is to provide approved lenders with mortgage insurance to protect them against the risk of default on mortgages that are made to qualified buyers who may not otherwise qualify for conventional loans or who live in underserved areas. Insured mortgages can be used to finance the purchase of new or existing one- to four-unit structures and can be used to refinance both FHA and non-FHA mortgages.

Down payments may be lower than conventional mortgages because the federally backed insurance allows lenders to finance up to 96.5 percent of the value of the home. This results in down payments as low as 3.5 percent. Out-of-pocket costs to borrowers in some

cases can be lowered through a variety of sources including loans, grants, and employer assistance.

FHA sets standards about the maximum mortgage amount that can be insured through the program and it varies by geographic location, ranging from \$271,050 to \$625,500.

### BORROWER CRITERIA

**Income limits:** There is no income limit to participate in the program. Lenders must analyze the income of each borrower who is obligated for the mortgage debt to determine whether the borrower's income level can be reasonably expected to continue through at least the first three years of the mortgage loan. This includes salaries and wages, as well as income from other non-employment sources, such as disability benefits,

PROGRAM NAME	203(b) Mortgage Insurance Program including Special Feature Programs (251, 203(n), 203(h), 247, and 248)
AGENCY	Federal Housing Administration
EXPIRATION DATE	Not Applicable
APPLICATIONS	To participate, lenders must be FHA-approved for the Title II loan program. Lenders may access FHA's Lender Requirements and the online lender application at: <a href="http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/lender/lendappr">http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/lender/lendappr</a>
WEB LINK	<a href="http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/ins/203b--df">http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/ins/203b--df</a>
CONTACT INFORMATION	Lenders that want to apply for FHA approval may contact the FHA Resource Center at <a href="mailto:answers@hud.gov">answers@hud.gov</a> or (800) 225-5342. Include the words "New Applicant" in the subject line, include a contact person, and phone number in the email body so that a Lender Approval representative may contact you.
APPLICATION PERIOD	Continuous
GEOGRAPHIC SCOPE	National

alimony, or pension benefits, all of which may be considered if properly verified and documented by the lender.

**Credit:** FHA uses a borrower's credit score to help determine the maximum amount of financing the borrower is eligible to receive. If the credit score is less than 500, then the borrower is not eligible for FHA-insured financing. If the borrower's credit score is at or above 580, then the borrower is eligible for maximum financing with a loan-to-value ratio (LTV) of 96.5 percent. If the credit score is between 500 and 579, then the borrower is limited to a maximum LTV of 90 percent.

**First-time homebuyers:** The program is often used to assist first-time homebuyers but is not restricted to this population; there are no additional or special terms for first-time homebuyers.

**Occupancy and ownership of other properties:** The program is limited to owner-occupied primary residences. The program can be used to finance the purchase of proposed, under construction, or existing one- to four-unit family dwellings, manufactured homes, or to refinance indebtedness on existing housing. In general, the program does not allow borrowers to have a secondary residence. If they do, the borrower may have only one secondary residence at any time to be eligible for the 203(b) program and it is only permitted in one circumstance. A secondary residence is allowed only if the Homeownership Center assisting the borrower determines that undue hardship exists; that there is no affordable rental housing for lease that meets the needs of the family within reasonable commuting distance of work; and if the maximum loan amount is 85 percent of the lesser of the appraised value or sales price.

**Special populations:** This program does not provide special benefits for members of certain populations.

**Property criteria:** The home must meet HUD's minimum property standards, such as durability and safety and soundness, which are frequently more stringent than local building codes because of the importance of having standardized collateral backing the loan. Sellers are expected to correct any safety and soundness deficiencies as a condition of accepting the loan. All repairs must be completed before closing. If the seller refuses, the buyer may create an escrow account for repairs and finance it into the loan through FHA's Limited Section 203(k) program (no minimum amount, non-structural repairs not exceeding \$35,000) or Standard Section 203(k) program (repairs of at least \$5,000, which may include structural repairs and additions).

## LOAN CRITERIA

**Loan limits:** FHA mortgage limits vary by the number of units and by the county or Metropolitan Statistical Area in which the property resides. HUD issues a Mortgagee Letter announcing the new mortgage limits every year.

## POTENTIAL BENEFITS

The Section 203(b) Mortgage Insurance Program may help community banks access the secondary market, providing greater liquidity to enhance their lending volume.

Special feature programs are responsive to the specific needs of different property types (e.g., cooperatives) and populations (e.g., disaster victims, Native Americans, Native Hawaiians).

## POTENTIAL CHALLENGES

Lenders must have a way to access the program, whether through direct sales or a correspondent arrangement, as discussed in the introduction to this section. Depending on the arrangement, community banks may need to acquire or develop new expertise and infrastructure in order to participate.

**Loan-to-value limits:** For purchases of existing properties, the maximum LTV is 96.5 percent and for refinance transactions (no cash-out), the maximum LTV is 97.75 percent. There are special requirements for maximum LTV for properties that do not yet exist or are under construction. The maximum LTV ratio for a property depends upon the stage of construction (proposed, under construction, or existing), the appraised value and sales price (for a purchase), and the borrower's credit score.

**Adjustable-rate mortgages:** Adjustable-rate mortgages are allowed through the sub-program Section 251 Mortgage Insurance for Adjustable-Rate Mortgages, described in more detail later in this summary. FHA uses one-year Treasury Constant Maturities Index to determine interest rate changes. The maximum amount the interest rate may increase or decrease in any one year is 1 percentage point. Over the life of the loan, the maximum interest rate change is 5 percentage points from the initial rate. Lenders must disclose to the borrower the terms of the ARM at the time of the loan application. In addition, borrowers must be informed at least 25 days in advance of any adjustment to the monthly payment. In most other respects, Section 251 loans are similar to basic FHA-insured single-family loans.

**Down payment sources:** FHA allows for various acceptable sources of funds to cover down payment costs. The acceptable sources fall into six categories, including cash and savings/checking account funds; investment funds; gifts; funds resulting from the sale of personal or real property; loans and grants; and employer assistance.

**Homeownership counseling:** Counseling is not required, but it is encouraged that borrowers contact a HUD-approved housing counseling agency to learn more about the program.

**Mortgage insurance:** Mortgage insurance premiums (MIP) are used to protect lenders against loss in the event of a foreclosure. Under Section 203(b), premiums are paid up front and monthly. For all mortgages, the upfront mortgage insurance premium (UFMIP) is 175 basis points (1.75 percent) of the base loan amount and is due within 10 calendar days of the mortgage closing or disbursement date, whichever is later. Lenders also collect from the borrower and remit an

annual mortgage insurance premium monthly to HUD. The MIP rates vary based on the LTV and mortgage term. For 30-year mortgages greater than 95 LTV, the annual premium is 85 basis points.

**Debt-to-income ratio:** HUD requires lenders to calculate two ratios to determine if a borrower can reasonably meet the expected expenses. First, the mortgage payment expense-to-effective income ratio (or front-end DTI) should not exceed 31 percent. Second, the total fixed payment-to-effective income ratio (or back-end DTI) should not exceed 43 percent. Manually underwritten loans with ratios that exceed 31 percent or 43 percent may be acceptable only if the lender documents qualified significant compensating factors. Loans receiving an "accept" scoring recommendation from the TOTAL Mortgage Scorecard are not subject to these restrictions.

**Temporary interest rate buy downs:** A third party may contribute up to 6 percent of either the lesser of the property's sales price or the appraised value toward closing costs. Any payment for permanent or temporary interest rate buy downs must be included in the 6 percent. Any temporary interest rate buy down is prohibited on all FHA-insured ARM products.

**Refinance:** Refinance is an allowed use of this product.

## SPECIAL FEATURE PROGRAMS

FHA operates a number of programs that have the same basic requirements as the 203(b) program, but include certain special features.

**251 Adjustable-Rate Mortgage (ARM):** The program provides lenders with insurance on ARMs that have built-in safeguards for borrowers and lenders that minimize the effect of a rapid rise in interest rates.

- Lenders must use either the one-year Treasury Constant Maturities Index or the one-year London Interbank Offered Rate (LIBOR) to calculate interest rates and annual adjustments. The interest rate may not increase or decrease more than 1 percentage point in any year. Over the life of the loan, the maximum interest rate change is 5 percentage points from the initial rate. The rate must be constant for the initial period (1, 3, 4, 7, or 10 years) and then can change annually. ARMs with initial periods longer than one year are called "Hybrid ARMs."

- The annual mortgage insurance premium is based on the initial interest rate.
- The loan term must be 30 years.
- Owner-occupants may refinance any loan to an FHA ARM.
- Properties must be one- to four-unit dwellings or condominium units.
- The Section 251 program works in conjunction with mortgage insurance provided by the Section 203(b) program, 203(k) Rehabilitation Mortgage Insurance, or 234(c) program for Condominium Units.

FHA sets a cap on the total number of ARMs it will insure each fiscal year and notifies lenders when it is close to reaching the cap. The cap is set at 30 percent of the total number of mortgages insured in the prior fiscal year.

### **203(h) Mortgage Insurance for Disaster Victims:**

The program insures lenders for loans to finance the purchase or reconstruction of a one-family, primary residence where the borrower is a victim of a presidentially designated major disaster. The one difference from the 203(b) program is that borrowers are not required to make a down payment. Borrowers must still have a minimum credit score of 500 to be eligible and are responsible for closing costs and prepaid expenses. The borrower's previous residence must have been located in the disaster area and either destroyed or damaged in such a way that the borrower requires a new property or total reconstruction.

**247 Insured Mortgages on Hawaiian Home Lands:** The FHA provides lenders with insurance to make mortgage loans to Native Hawaiians. Eligible borrowers must purchase a one- to four-unit property located on Hawaiian homeland and use it as their primary residence. The lender must certify that the property is located on eligible land through the Department of Hawaiian Home Lands. The program operates with the same parameters as the 203(b) program, except that the typical minimum credit score requirement of 500 does not apply and only an upfront mortgage insurance premium is required and not the annual premium. Loans are eligible for refinancing under the Section 247 program.

**248 Insured Mortgages on Indian Land:** The program is very similar to the Section 247 special feature, except insurable loans must be made to Native Americans to

buy, build, or rehabilitate a one- to four-unit property on Indian land that they intend to use as a primary residence. The minimum credit score requirement of the 203(b) program does not apply to Section 248 loans, and instead of an upfront mortgage insurance premium, the program only requires monthly MIP payments.

### **Potential Benefits**

- The Section 203(b) Mortgage Insurance Program may help community banks access the secondary market, providing greater liquidity to enhance their lending volume.
- Special feature programs are responsive to the specific needs of different property types (e.g., cooperatives) and populations (e.g., disaster victims, Native Americans, Native Hawaiians).
- The Section 203(b) Mortgage Insurance Program may allow community banks to expand their customer base in low- and moderate-income communities and to a broader range of borrowers.
- The Section 203(b) Mortgage Insurance Program offers competitive pricing and terms.
- Loans originated through Section 203(b) Mortgage Insurance Program can be positively considered under the Community Reinvestment Act, depending on the geography or incomes of the participating borrowers.

### **Potential Challenges**

- Lenders must have a way to access the program, whether through direct sales or a correspondent arrangement, as discussed in the introduction to this section. Depending on the arrangement, community banks may need to acquire or develop new expertise and infrastructure in order to participate.

### **SIMILAR PROGRAMS**

- Fannie Mae HomeReady™
- Freddie Mac Home Possible®
- VA Purchase and Cash-Out Refinance Home Loans
- USDA Single Family Housing Guaranteed Loans (Section 502)

## RESOURCES

### General information

[http://portal.hud.gov/hudportal/HUD?src=/program\\_offices/housing/sfh/ins/203b--df](http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/ins/203b--df)

### Applications

[http://portal.hud.gov/hudportal/HUD?src=/program\\_offices/housing/sfh/lender/lendappr](http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/lender/lendappr)

### FHA mortgage limits

<https://entp.hud.gov/idapp/html/hicostlook.cfm>

**HUD Handbook 4000.1** (contains all 203(b) program requirements; sections of particular importance are identified below)

<http://portal.hud.gov/hudportal/documents/huddoc?id=40001HSGH.pdf>

- See section I.A.3 for lender application and approval requirements
- See section II.A.5.c.viii. for Approvable Ratio Requirements for manual underwriting
- See section II.A.8.f. for Section 251 Adjustable-Rate Mortgage program requirements
- See section II.A.8.b. for Section 203(h) Mortgage Insurance for Disaster Victims program requirements
- See section II.A.8.h. for Section 247 Single Family Mortgage Insurance on Hawaiian Home Lands program requirements
- See section II.A.8.g. for Section 248 Mortgages on Indian Land program requirements

**HUD Handbook 4155.2 section 1.C.6.a** (for Section 203(n) Program requirements)

[http://portal.hud.gov/hudportal/documents/huddoc?id=4155-2\\_1\\_secC.pdf](http://portal.hud.gov/hudportal/documents/huddoc?id=4155-2_1_secC.pdf)

### Mortgage insurance premium rates

[http://portal.hud.gov/hudportal/HUD?src=/program\\_offices/housing/comp/premiums/sfpcalc](http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/comp/premiums/sfpcalc)

**HUD Handbook 4155.1 section 4.F.3.b** (includes descriptions of Significant Compensating Factors)

<http://portal.hud.gov/hudportal/documents/huddoc?id=40001HSGH.pdf>

### HUD-approved housing counseling agencies

<http://www.hud.gov/offices/hsg/sfh/hcc/hcs.cfm>

### FHA mortgage limits

<https://entp.hud.gov/idapp/html/hicostlook.cfm>

### HUD's minimum property standards

[http://portal.hud.gov/hudportal/HUD?src=/program\\_offices/administration/hudclips/handbooks/hsg/4910.1](http://portal.hud.gov/hudportal/HUD?src=/program_offices/administration/hudclips/handbooks/hsg/4910.1)



## Streamline Refinance

Helps existing FHA borrowers refinance to a more affordable mortgage

### BACKGROUND AND PURPOSE

The Streamline Refinance program allows FHA-approved lenders to refinance current FHA-insured loans to a lower interest rate or to a different type of mortgage (fixed- or adjustable-rate mortgage). Streamline Refinance refers only to the amount of documentation and underwriting that the lender must perform; it does not mean that there are no costs involved in the transaction. Borrowers may elect not to provide income and credit documentation in exchange for a smaller discount on their interest rate. The time and cost savings mostly come from the fact that a new appraisal is not required. No cash may be taken out on mortgages refinanced using the Streamline Refinance program. In order to offer the program, lenders must be FHA-approved supervised lenders and be approved by FHA as a direct endorsement (DE) lender.

The ability to refinance existing FHA loans without regard to the loan-to-value (LTV) ratio, credit score, or other factor originally used to qualify the borrower lowers FHA's risk because borrowers are less likely to default on their mortgages if their payments are more affordable. Therefore, FHA's requirements are very minimal. While lenders may set their own qualifying requirements, FHA has exempted these transactions from inclusion in "compare ratios," a measure of the lender's default rate compared to other FHA lenders in the area, in an attempt to encourage lenders to perform these transactions for borrowers who might not otherwise qualify based on their circumstances.

FHA has allowed streamlined refinancing for borrowers who are current on their existing FHA-insured

PROGRAM NAME	Streamline Refinance
AGENCY	Federal Housing Administration
EXPIRATION DATE	Not Applicable
APPLICATIONS	Lenders may access FHA's Lender Requirements and the online lender application at: <a href="http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/lender/lendappr">http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/lender/lendappr</a>
WEB LINK	<a href="http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/ins/streamline">http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/ins/streamline</a>
CONTACT INFORMATION	Telephone: (800) CALL-FHA (225-5342) Email: <a href="mailto:answers@hud.gov">answers@hud.gov</a> . Lenders that want to apply for FHA approval should include the words "New Applicant" in the email subject line and include a contact person and phone number in the email body so that a Lender Approval representative may contact you.
APPLICATION PERIOD	Continuous
GEOGRAPHIC SCOPE	National

mortgages since 1986. In 2011, FHA added the net-tangible benefit test to ensure the refinance would offer the borrower a long-term benefit of lower monthly payments. The program was enhanced in 2012, when FHA significantly reduced the mortgage insurance premiums (MIP) on the refinance of a previous FHA insured loan endorsed on or before May 31, 2009.

## BORROWER CRITERIA

**Income limits:** This program has no income limits.

**Credit:** There are two types of Streamline Refinances: credit qualifying, where the borrower provides income and credit documentation and the lender performs a credit check; and non-credit qualifying, where no credit check is performed. Interest rates on non-credit qualifying transactions may be higher due to the increased risk. Credit qualifying procedures must be followed in cases where the refinance is creating a substantial change in the mortgage, such as an increase of more than 20 percent in payments, or removing a borrower. Otherwise, it is the borrower's choice. In both cases, the lender must verify that the mortgage payment history meets FHA guidelines.

**Occupancy and ownership of other properties:** Owners of one- to four-unit primary residences, HUD-approved secondary residences, and non-owner occupied properties (i.e., investment properties) with existing FHA-insured mortgages can all use the program.

**Payment history requirement:** Borrowers must have made at least six payments on the FHA-insured mortgage that is being refinanced, at least six months must have passed since the first payment due date of the FHA-insured mortgage that is being refinanced, and at least 210 days must have passed from the closing date of the FHA-insured mortgage that is being refinanced. If the borrower assumed the mortgage that is being refinanced, they must have made six payments since the time of assumption.

## LOAN CRITERIA

**Loan limits:** Generally, streamline refinances must comply with statutory FHA mortgage limits except by the amount of the upfront mortgage insurance premium (UFMIP). FHA mortgage limits vary by the number of units and by the county or Metropolitan Statistical Area in which the property resides. HUD issues a Mortgagee Letter announcing the new mortgage limits every year.

**Loan-to-value limits:** There are no LTV or combined LTV limits. The maximum allowable mortgage amount is based on the principal balance of the FHA-insured loan being refinanced.

**Adjustable-rate mortgages:** An ARM may be refinanced to another ARM only if the property is a primary residence. A fixed-rate mortgage may be refinanced to a one-year ARM as long as the new interest rate is at

## POTENTIAL BENEFITS

FHA Streamline Refinance transactions are exempt from a bank's compare ratios. This means that a bank can make loans without regard to typical risk factors such as credit score because the performance of the loans will not influence the bank's performance record. Streamline Refinance can also remove at-risk loans from the bank's regular FHA performance record.

The reduced underwriting requirements and waiver of appraisal cuts down significantly on the amount of time it takes to refinance the loan.

## POTENTIAL CHALLENGES

Lenders must be FHA-approved and must be approved for direct endorsement.

A limited pool of borrowers is eligible for this program because only existing FHA mortgage holders who are current on their mortgages are eligible, and those who are not struggling to make payments may have more competitive refinancing options.



least 2 percentage points below the current interest rate of the fixed-rate mortgage.

**Homeownership counseling:** Not required.

**Mortgage insurance:** The UFMIP is 1 basis point or 0.01 percent of the loan value, and the annual mortgage insurance premium (MIP) is 55 bps or 0.55 percent of the loan value.

**Debt-to-income ratio:** The program does not require lenders to compute the DTI ratio for non-credit qualifying Streamline Refinances. For credit-qualifying refinances, the lender must calculate the borrower's DTI. However, there is no hard and fast DTI cutoff because a borrower can always convert to a non-credit qualifying transaction. In the event that the borrower has student loan debt and is not yet in repayment, as is the case for current students, FHA's policy is to include 2 percent of the total student loan balance in the debt-to-income calculation. For example, if the student has a current debt of \$20,000, then FHA would add an estimated \$400 monthly student loan payment to the DTI calculation.

**Net tangible benefits requirement:** The transaction must result in a tangible benefit to the borrower of either a 5 percent reduction to the principal and interest of the mortgage payment plus the annual mortgage insurance premium, or refinancing from an adjustable-rate mortgage to a fixed-rate mortgage. If refinancing an ARM to an ARM, the interest rate must be at least 2 percentage points lower than the current interest rate.

## Potential Benefits

- FHA Streamline Refinance transactions are exempt from a bank's compare ratios. This means that a bank can make loans without regard to typical risk factors such as credit score because the performance of the loans will not influence the bank's performance record. Streamline Refinance can also remove at-risk loans from the bank's regular FHA performance record.
- The reduced underwriting requirements and waiver of appraisal cuts down significantly on the amount of time it takes to refinance the loan.
- The insurance provided through this program protects community banks from credit risk.

- This program allows community banks to offer a product to existing FHA borrowers who would not qualify for other mortgage refinance products and may reduce their monthly payments. Loans originated through this program may be positively considered under the Community Reinvestment Act, depending on the geography or incomes of the participating borrowers.

## Potential Challenges

- Lenders must be FHA-approved and must be approved for direct endorsement.
- A limited pool of borrowers is eligible for this program because only existing FHA mortgage holders who are current on their mortgage are eligible, and those who are not struggling to make payments may have more competitive refinancing options.
- Findings under FHA's Technology Open to Approved Lenders (TOTAL) mortgage scoring system are invalid. Any underwriting that may be necessary under a credit-qualifying transaction must be done manually.

## SIMILAR PROGRAMS

- Fannie Mae Refi Plus™
- Freddie Mac Relief Refinance<sup>SM</sup>

## RESOURCES

### General information

[http://portal.hud.gov/hudportal/HUD?src=/program\\_offices/housing/sfh/ins/streamline](http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/ins/streamline)

### HUD Handbook 4000.1

<http://portal.hud.gov/hudportal/documents/huddoc?id=40001HSGH.pdf>

- Refer to section II.A.5.a. for manual underwriting guidelines
- Refer to section II.A.5.d. for DTI requirements
- Refer to section II.A.8.d. for program requirements
- Refer to Appendix 1.0 for mortgage insurance premium requirements

### Applications

[http://portal.hud.gov/hudportal/HUD?src=/program\\_offices/housing/sfh/lender/lendappr](http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/lender/lendappr)

### HUD Handbook 4155.2 section 2.A.1.d (DE lender application and approval process)

[http://portal.hud.gov/hudportal/documents/huddoc?id=4155-2\\_2\\_secA.pdf](http://portal.hud.gov/hudportal/documents/huddoc?id=4155-2_2_secA.pdf)

### FHA mortgage limits

<https://entp.hud.gov/idapp/html/hicostlook.cfm>

### FHA TOTAL Mortgage Scorecard

[http://portal.hud.gov/hudportal/HUD?src=/program\\_offices/housing/sfh/total](http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/total)

## Refinance of Borrowers in Negative Equity Positions (Short Refinance)

Provides current but underwater non-FHA borrowers with a path to an affordable FHA mortgage

### BACKGROUND AND PURPOSE

The Federal Housing Administration's (FHA) Refinance of Borrowers in Negative Equity Positions (Short Refinance) is designed to help responsible non-FHA homeowners who are underwater but current on their mortgage to refinance into a FHA-insured mortgage. The goal of the program is to stabilize housing markets and assist responsible homeowners who owe more on their mortgage than the underlying property is worth due to price declines in their local market. Lender participation is voluntary and they must write off the unpaid principal balance of the original first lien mortgage by at least 10 percent.

To be eligible, the mortgage must not be currently owned or guaranteed by FHA. Borrowers must be current on their mortgage payments, occupy the house as a primary residence, and be eligible for the new FHA loan under standard FHA underwriting

requirements except for certain credit, debt-to-income, and new mortgage requirements specific to the Short Refinance program. The program first went into effect in 2010; in 2014, HUD announced that the program would be extended for an additional two years through December 31, 2016.

### BORROWER CRITERIA

**Income limits:** This program has no income limits.

**Credit:** The borrower's credit score must be greater than or equal to 500 for eligibility, and greater than or equal to 580 for loan-to-value ratios greater than or equal to 90 percent.

**Occupancy and ownership of other properties:** Permitted, but the borrower may not have any

PROGRAM NAME	Refinance of Borrowers in Negative Equity Positions (Short Refinance)
AGENCY	Federal Housing Administration
EXPIRATION DATE	December 31, 2016
APPLICATIONS	Lenders may access FHA's Lender Requirements and the online lender application at: <a href="http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/lender/lendappr">http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/lender/lendappr</a>
WEB LINK	<a href="http://portal.hud.gov/hudportal/documents/huddoc?id=factsheetindustryshortrefi.pdf">http://portal.hud.gov/hudportal/documents/huddoc?id=factsheetindustryshortrefi.pdf</a>
CONTACT INFORMATION	Telephone: (800) CALL-FHA (225-5342) Email: <a href="mailto:answers@hud.gov">answers@hud.gov</a> . Lenders that want to apply for FHA approval should include the words "New Applicant" in the email subject line and include a contact person and phone number in the email body so that a Lender Approval representative may contact you.
APPLICATION PERIOD	Ends December 31, 2016
GEOGRAPHIC SCOPE	National

FHA-insured mortgages. The borrower must occupy the property (one to four units) as his or her primary residence.

## LOAN CRITERIA

**Loan limits:** FHA mortgage limits vary by the number of units and by the county or Metropolitan Statistical Area in which the property resides. HUD issues a Mortgagee Letter announcing the new mortgage limits every year.

**Loan-to-value limits:** The refinanced FHA-insured first mortgage must have an LTV ratio of no more than 97.75 percent. Any non-extinguished existing subordinate mortgage must be re-subordinated to the new loan and all liens together may not have a combined LTV ratio greater than 115 percent except for second liens held by governmental entities, for which there is no maximum combined LTV.

**Adjustable-rate mortgages:** The new loan can be financed with a fixed-rate or adjustable-rate mortgage.

**Homeownership counseling:** The program does not require housing counseling.

**Mortgage insurance:** Standard FHA mortgage insurance premiums apply.

**Debt-to-income ratio:** For mortgages that receive a risk classification of "Accept" from FHA's Technology Open To Approved Lenders (TOTAL) Mortgage Scorecard, there are no restrictions. For mortgages that receive a risk classification of "Refer" from FHA's TOTAL Mortgage scorecard, the homeowner's total monthly mortgage payment, including the first and any subordinate mortgage(s), cannot be greater than 31 percent of gross monthly income. Total debt, including all recurring debts, cannot be greater than 50 percent of gross monthly income. If total debt does not exceed 48 percent of gross monthly income, the total monthly mortgage payment may be up to 35 percent of gross monthly income. In the event that the borrower has student loan debt and is not yet in repayment, as is the case for current students, FHA's policy is to include 2 percent of the total student loan balance in the debt-to-income calculation. For example, if the student has a current debt of \$20,000, then FHA would add an estimated \$400 monthly student loan payment to the DTI calculation.

## Potential Benefits

- A borrower is less likely to default with a lower mortgage amount, and the lender will garner the financial benefits of originating a new FHA-insured mortgage – fees, charges, servicing rights, etc.
- The program helps to stabilize communities that have seen a decline in housing prices by preventing potential foreclosures by underwater borrowers.

## POTENTIAL BENEFITS

A borrower is less likely to default with a lower mortgage amount, and the lender will garner the financial benefits of originating a new FHA-insured mortgage – fees, charges, servicing rights, etc.

The program helps to stabilize communities that have seen a decline in housing prices by preventing potential foreclosures by underwater borrowers.

## POTENTIAL CHALLENGES

The lender of the existing mortgage must voluntarily agree to write down a portion of the principal.

The lender must be an FHA-approved lender to process the refinance.

- FHA Short Refinance transactions are exempt from a bank's compare ratios. This means that a bank can make loans without regard to typical risk factors such as credit score because the performance of the loans will not influence the bank's performance record. Short Refinance can also remove at-risk loans from the bank's regular FHA performance record.

## Potential Challenges

- The lender of the existing mortgage must voluntarily agree to write down a portion of the principal.
- The lender must be an FHA-approved lender to process the refinance.
- The lender must ensure that a Direct Endorsement underwriter has reviewed the appraisal, though lenders do not have to be a DE.
- The lender must either be active in non-FHA lending, or be able to convince other lenders to write down a portion of the principal, in order to have a pool of eligible borrowers.
- The program will terminate in December 2016.

## RESOURCES

### General information

<http://portal.hud.gov/hudportal/documents/huddoc?id=factsheetindustryshortrefi.pdf>

### Application

[http://portal.hud.gov/hudportal/HUD?src=/program\\_offices/housing/sfh/lender/lendappr](http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/lender/lendappr)

### HUD Handbook 4000.1 (includes program requirements)

<http://portal.hud.gov/hudportal/documents/huddoc?id=40001HSGH.pdf>

- See section II.A. 2.b.i for detail on credit requirements
- See section II.A.8.e.ii.(C) for detail on LTV and loan limits
- See section A.1.3 for lender approval requirements
- See Appendix 1.0 for all mortgage insurance premium rates

### FHA mortgage limits

<https://entp.hud.gov/idapp/html/hicostlook.cfm>

### FHA TOTAL Mortgage Scorecard

[http://portal.hud.gov/hudportal/HUD?src=/program\\_offices/housing/sfh/total](http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/total)

## 203(k) Rehabilitation Mortgage Insurance

Helps prospective and current borrowers improve their homes

### BACKGROUND AND PURPOSE

The 203(k) Rehabilitation Mortgage Insurance program is FHA's primary tool to enable the rehabilitation and repair of single-family properties and has been in existence since 1978. The program enables lenders to offer homebuyers, current homeowners, and nonprofit organizations a single, long-term, fixed-, or adjustable-rate loan that covers the acquisition, refinance, and rehabilitation of a property. Often when buying a house that needs repairs, homebuyers have to find multiple sources of financing, and improvement loans often carry high interest rates and short repayment terms. Section 203(k) insured loans help the borrower access affordable financing and protect lenders by allowing them to have the loan insured before the final condition and value of the property are achieved.

There are two versions of the program, Standard and Limited, which are used to finance different levels and

types of repairs. The Standard 203(k) program may be used for remodeling and extensive, structural repairs. There is a minimum repair cost of \$5,000 and the use of a 203(k) Consultant is required. 203(k) consultants are professionals certified by HUD who ensure that all FHA minimum standards are met during the 203(k) loan process and are listed in the HUD 203(k) consultant roster. Their duties include visiting the property, completing the work write-up/cost estimate and architectural exhibits, and performing draw request inspections. The Limited 203(k) program was created in 2005 to finance minor remodeling and non-structural repairs. Eligible projects must not exceed \$35,000 and there is no minimum loan amount. Any FHA-approved lender may originate a Limited 203(k) loan, while the Standard 203(k) loan requires special expertise. In both the Standard and Limited versions of the program, a

PROGRAM NAME	203(k) Rehabilitation Mortgage Insurance
AGENCY	Federal Housing Administration
EXPIRATION DATE	Not Applicable
APPLICATIONS	To participate, lenders must be FHA-approved for the Title II loan program. Lenders may access FHA's Lender Requirements and the online lender application at: <a href="http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/lender/lendappr">http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/lender/lendappr</a>
WEB LINK	<a href="http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/203k/203k--df">http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/203k/203k--df</a>
CONTACT INFORMATION	Telephone: (800) CALL-FHA (225-5342) Email: <a href="mailto:answers@hud.gov">answers@hud.gov</a> . Lenders that want to apply for FHA approval should include the words "New Applicant" in the email subject line and include a contact person and phone number in the email body so that a Lender Approval representative may contact you.
APPLICATION PERIOD	Continuous
GEOGRAPHIC SCOPE	National

portion of the loan is used to pay the seller or, if it is a refinance, to pay off the existing mortgage. The remaining funds are placed in an escrow account and released as the repairs are completed.

## BORROWER CRITERIA

**Income limits:** There is no income limit to participate in the program.

**Credit:** Credit scores above 580 are eligible for maximum financing of 96.5 percent. Credit scores between 500 and 579 are limited to a maximum 90 percent loan to value. Credit scores of less than 500 are not eligible for FHA insured financing. Borrowers with non-traditional or insufficient credit histories are eligible for maximum financing, but must be underwritten using the procedures in manual underwriting.

**First-time homebuyers:** The program is open to all interested borrowers and can be used by first-time homebuyers. The program can also be used to refinance a property.

**Occupancy and ownership of other properties:** Only owner-occupants, not investors, may use the program. Local governments and nonprofits that obtain approval through FHA's Homeownership Centers can also use the program. The original construction of the property must have been complete for at least a year. This is to ensure the 203(k) loan insurance is not used to construct a new property, but only to repair an existing one. The 203(k) program can also be used with the Section 203(h) Mortgage Insurance for Disaster Victims program. Damaged residences are eligible for 203(k) mortgage insurance regardless of the age of the property and for properties that must be razed in order for the construction to proceed, but retain the original complete foundation. Property types that are eligible for Section 203(k) insurance include one-to four-unit single-family structures; interior repairs only on individual condominium units in an FHA-approved condominium project; ground-only or "site" condominium units; manufactured housing where the rehabilitation does not affect the structural components; a mixed-use property with one to four units, provided that over half of the property's square footage is for residential use; or HUD Real Estate Owned (REO) property.

## LOAN CRITERIA

**Loan limits:** FHA mortgage limits vary by the number of units and by the county or Metropolitan Statistical Area in which the property resides. HUD issues a Mortgagee Letter announcing the new mortgage limits every year.

**Loan-to-value limits:** For purchase transactions, the maximum LTV is 96.5 percent and for refinance transactions, the maximum LTV is 97.75 percent. LTV is calculated as the lesser of the "As-Is Value," plus:

- financeable repair and improvement costs;
- financeable mortgage fees;

## POTENTIAL BENEFITS

To minimize the risk to the lender, the mortgage loan is eligible for endorsement by HUD as soon as the mortgage proceeds are disbursed and a rehabilitation escrow account is established. At this point, the lender has a fully insured mortgage loan even though the improvements have not been completed.

The 203(k) program allows lenders to offer a product to a market segment of new and existing homeowners who wish to improve their properties.

## POTENTIAL CHALLENGES

This program has many unique requirements and forms with which lenders must be familiar, such as escrows and reserves, administration of draws, and pricing of rehabilitation work.

Lenders must partner with FHA-approved 203(k) Consultants and ensure they are in good standing.



- financeable contingency reserves;
- financeable mortgage payment reserves, (for Standard 203(k) only);
- OR 110 percent of the after improved value (100 percent for condominiums);
- OR the nationwide mortgage limits.

**Down payment sources:** As with other FHA programs, the minimum down payment for purchase loans is 3.5 percent of the loan amount. FHA allows for various acceptable sources of funds to cover down payment costs. The acceptable sources fall into six categories, including cash and savings/checking account funds; investment funds; gifts; funds resulting from the sale of personal or real property; loans and grants; and employer assistance.

**Homeownership counseling:** Not required.

**Mortgage insurance:** For all mortgages, the up-front mortgage insurance premium is 175 basis points (1.75 percent) of the base loan amount. Lenders also pay an annual mortgage insurance premium on a monthly basis to HUD. These are typically passed on to the borrower at the lender's discretion. The rates vary based on the loan to value and mortgage term. For 30-year mortgages with an LTV greater than 95 percent, the annual premium is 55 basis points.

**Debt-to-income ratio:** HUD requires lenders to calculate two ratios to determine if a borrower can reasonably meet the expected expenses. First, the Mortgage Payment Expense to Effective Income ratio (or front-end DTI) should not exceed 31 percent. Second, the Total Fixed Payment to Effective Income ratio (or back-end DTI) should not exceed 43 percent. Ratios that exceed 31 percent or 43 percent may be acceptable if the lender documents qualified "significant compensating factors." In the event the borrower has student loan debt and is not yet in repayment, as is the case for current students, FHA's policy is to include 2 percent of the total student loan balance in the debt-to-income calculation. For example, if the student has a current debt of \$20,000, then FHA would add an estimated \$400 monthly student loan payment to the DTI calculation.

**Refinance:** The program can be used to refinance and rehabilitate an existing property. A Section 203(k)

rehabilitation mortgage may be refinanced into a Section 203(b) mortgage once the rehabilitation work is complete.

**Origination fee:** The lender may finance a portion of the borrower-paid origination fee not to exceed the greater of \$350, or 1.5 percent of the total of the fees described below, as well as a portion of the borrower-paid discount points not to exceed an amount equal to the discount point percentage multiplied by the total of the fees described below:

- costs of construction, repairs and rehabilitation;
- architectural/engineering professional fees;
- the 203(k) Consultant fee subject to the limits in the 203(k) Consultant Fee Schedule section;
- inspection fees performed during the construction period, provided the fees are reasonable and customary for the area;
- title update fees;
- permits; and
- a feasibility study, when necessary to determine if the rehabilitation is reasonable.

## Potential Benefits

- To minimize the risk to the lender, the mortgage loan is eligible for endorsement by HUD as soon as the mortgage proceeds are disbursed and a rehabilitation escrow account is established. At this point, the lender has a fully insured mortgage loan even though the improvements have not been completed.
- The 203(k) program allows lenders to offer a product to a market segment of new and existing homeowners who wish to improve their property.
- The 203(k) program allows lenders to offer this product at terms that are competitive compared to the conventional market. Loans originated under this program may be positively considered under the Community Reinvestment Act, depending on the geography or incomes of the participating borrowers.

## Potential Challenges

- This program has many unique requirements and forms with which lenders must be familiar, such as escrows and reserves, administration of draws, and pricing of rehabilitation work.
- Lenders must partner with FHA-approved 203(k) Consultants and ensure they are in good standing.
- Lenders must partner with appraisers who are familiar with the unique appraisal requirements of this program. Appraisers must be certified by the state in which they are located or by a nationally recognized professional organization.

## SIMILAR PROGRAMS

- Fannie Mae HomeStyle® Renovation Mortgage
- Freddie Mac Renovation Mortgage
- USDA Section 504 Repair Loan/Grant

## RESOURCES

### FHA mortgage limits

<https://entp.hud.gov/idapp/html/hicostlook.cfm>

## 184 Indian Home Loan Guarantee Program

Provides access to credit for American Indian and Alaska Native families, Alaska Villages, Tribes, or Tribally Designated Housing Entities

### BACKGROUND AND PURPOSE

The Section 184 Indian Home Loan Guarantee Program was created by the Housing and Community Development Act of 1992 to address the lack of mortgage lending in Indian Country. Native American homeownership has historically been an underserved market. Land held in trust for a tribe cannot be mortgaged, and land held in trust for an individual must receive approval from the Bureau of Indian Affairs (BIA), before a lien is placed on the property. Without the ability to mortgage and foreclose on a home or place a lien on individual trust property, lenders have found it difficult to make home loans to individual Native Americans.

Working with an expanding network of private sector and tribal partners, the Section 184 Indian Home Loan Guarantee Program endeavors to increase access to capital for Native Americans and provide private funding opportunities for tribal housing agencies with the Section 184 Indian Home Loan Guarantee Program. The program has grown to include eligible areas, determined by participating tribes, across the country. The Section 184 Indian Home Loan Guarantee Program is a home mortgage specifically designed for American Indian and Alaska Native families, Alaska Villages, Tribes, or Tribally Designated Housing Entities.

PROGRAM NAME	184 Indian Home Loan Guarantee Program
AGENCY	U.S. Department of Housing and Urban Development
EXPIRATION DATE	Not Applicable
APPLICATIONS	<a href="http://portal.hud.gov/hudportal/HUD?src=/program_offices/public_indian_housing/ih/homeownership/184/lenders">http://portal.hud.gov/hudportal/HUD?src=/program_offices/public_indian_housing/ih/homeownership/184/lenders</a>
WEB LINK	<a href="http://portal.hud.gov/hudportal/HUD?src=/program_offices/public_indian_housing/ih/homeownership/184/guidelines">http://portal.hud.gov/hudportal/HUD?src=/program_offices/public_indian_housing/ih/homeownership/184/guidelines</a>
CONTACT INFORMATION	800-561-5913, ask for the Office of Loan Guarantee
APPLICATION PERIOD	Continuous
GEOGRAPHIC SCOPE	<p>The land located in an eligible Indian area or Alaska Native area (as determined by the participating Tribes) may entail Tribal Trust, Allotted Trust, or fee simple.</p> <ul style="list-style-type: none"> <li>• The section 184 loan is available in all counties in AK, AZ, CA, CO, FL, HI, ID, IN, KS, MA, ME, MI, MN, MT, NC, ND, NM, NV, OK, OR, SC, SD, UT, WA, and WI.</li> <li>• The section 184 loan is available in SELECT counties in AL, CT, IA, IL, LA, MO, MS, NE, NY, RI, TX, and WY.</li> <li>• The section 184 loan is NOT available in AR, DE, DC, GA, KY, MD, NH, NJ, OH, PA, TN, VT, VA, and WV.</li> </ul>

Section 184 Indian Home Loan Guarantee Program loans can be used, both on and off native lands, for new construction, rehabilitation, purchase of an existing home, or refinance. To help increase access to financing, the Office of Loan Guarantee within HUD's Office of Native American Programs guarantees the Section 184 home mortgage loans made to Native borrowers. By providing a 100 percent guarantee, the program encourages lenders to serve Native Communities. This increases the marketability and value of the Native assets and strengthens the financial standing of Native Communities.

This program is very similar to Section 248 Mortgage Insurance on Indian Lands. However, Section 248 allows for refinancing, while Section 184 does not. Section 184 allows for mortgages on individual trust land as well as tribal trust land, whereas Section 248 may only be used on tribal trust land.

## BORROWER CRITERIA

**Income limits:** This program has no income limits.

**Credit:** Interest rates are based on market rates, not on an applicant's credit score. There is no minimum credit score required to qualify for the program. However, in all cases the borrower must be creditworthy. Alternative credit is allowed, but not as a substitute for traditional credit. When delinquent accounts are revealed on the borrower's credit report, underwriters must use their best judgment and experience to determine whether the late payments were due to a disregard for financial obligations, an inability to manage these obligations, or factors beyond the control of the applicant.

**First-time homebuyers:** Allowed; confers no benefit.

**Occupancy and ownership of other properties:** The guarantee funds are reserved for primary residences only.

**Special populations:** Borrowers wishing to use a Section 184 Indian Home Loan Guarantee Program loan must be a currently enrolled member of a Federally Recognized Tribe or Alaska Native. For Native Hawaiians, participation is through Section 184A: Native Hawaiian Housing Loan Guarantee Program.

**Special assistance for persons with disabilities:** Outfitting a home for use by a person with a disability is an eligible use of program funds.

**Property type:** Single-family, one- to four-unit homes only. Homes must be of standard quality and must meet applicable construction and safety codes. In addition, homes must be modest in size and design. To meet this requirement, no loan under the Section 184 Indian Home Loan Guarantee Program may exceed 150 percent of the maximum FHA mortgage limit for the area. Loans may be used to:

- purchase an existing home;
- construct a new home (site-built or manufactured homes on permanent foundations);

## POTENTIAL BENEFITS

The Section 184 Indian Home Loan Guarantee Program may allow community banks to expand their customer base in low- and moderate-income communities, particularly near Tribal Reservations and on Tribal trust land.

The Section 184 Indian Home Loan Guarantee Program offers competitive pricing and terms.

## POTENTIAL CHALLENGES

Lenders must have a way to access the program, whether through direct sales or a correspondent arrangement, as discussed in the introduction to this section. Depending on the arrangement, community banks may need to acquire or develop new expertise and infrastructure in order to participate.

Manual underwriting is a requirement of this program.

- rehabilitate a home, including weatherization;
- purchase and rehabilitate a home; or
- refinance a home (rate and term, streamline, cash-out).

## LOAN CRITERIA

**Loan limits:** The maximum mortgage amount may not exceed 150 percent of current FHA mortgage limits. FHA mortgage limits vary by the number of units and by the county or Metropolitan Statistical Area in which the property resides. HUD issues a Mortgagee Letter announcing the new mortgage limits every year.

**Loan-to-value limits:** The LTV is 97.75 percent on loans over \$50,000 and 98.75 percent on loans under \$50,000.

**Adjustable-rate mortgages:** Not allowed.

**Down payment sources:** No requirement for personal funds. Gifts and down payment assistance programs from entities with a clearly defined and documented interest in the applicant are allowed. Gifts from entities with an interest in the sale of the property are considered inducements to purchase and must be subtracted from the sales price. Subordinate financing may be used, but must be included in the calculation of applicant's qualifying ratios. Anything that does not need to be repaid while the borrower lives in the home is considered a gift.

**Homeownership counseling:** Not required, but highly recommended. Some lenders or Tribes offer financial assistance to borrowers who attend these classes.

**Mortgage insurance:** Loans with a LTV of 78 percent or greater are subject to an annual 0.15 percent mortgage insurance premium.

**Debt-to-income ratio:** No more than 41 percent, or no more than 43 percent with two or more compensating factors (minimal housing cost increase, strong credit history, additional income not used as qualifying income, substantial cash reserves, loan to value below 75 percent).

**Temporary interest rate buy downs:** Acceptable on purchase transactions only. Loans must be underwritten at note rate.

**Refinance:** Allowed.

**Fees:** The program monitors the fees approved lenders can charge Native borrowers. A one-time 1.5 percent up-front guarantee fee is paid at closing and can be financed into the loan.

**Guarantee:** The Office of Native American Programs guarantees Section 184 Indian Home Loan Guarantee Program loans at 100 percent repayment.

**Maximum loan amount:** In no case can the mortgage amount exceed 150 percent of the FHA's mortgage limit for the area.

**Underwriting:** Manual underwriting only. The Section 184 guaranteed loan utilizes a hands-on approach to underwriting and approval.

**Appraisals:** Home values can be based on cost or market. On reservation<sup>2</sup> properties, land values are not added into total appraisal values.

**Special considerations:** For a home loan on tribal trust land, the eligible individual borrower leases the land from the tribe for 50 years. It is the home and the leasehold interest that are mortgaged. The land remains in trust for the tribe.

**Secondary market:** A Section 184 Indian Home Loan Guarantee Program loan, including the security given for the loan, may be sold or assigned by the lender to any financial institution. A strong secondary market exists for Section 184 Indian Home Loan Guarantee Program loans. A growing network of national lenders as well as Fannie Mae, Freddie Mac, Ginnie Mae, some state housing financing agencies, and some Federal Home Loan Banks purchase Section 184 Indian Home Loan Guarantee Program loans.

## Potential Benefits

- The Section 184 Indian Home Loan Guarantee Program may allow community banks to expand their customer base in low- and moderate-income communities, particularly near Tribal Reservations and on Tribal trust land.

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<sup>2</sup> According to the U.S. Department of the Interior Indian Affairs, a "federal Indian reservation is an area of land reserved for a tribe or tribes under treaty or other agreement with the United States, executive order, or federal statute or administrative action as permanent tribal homelands, and where the federal government holds title to the land in trust on behalf of the tribe."

- The Section 184 Indian Home Loan Guarantee Program offers competitive pricing and terms.
- The Section 184 Indian Home Loan Guarantee Program may help community banks access the secondary market, providing greater liquidity to enhance their lending volume.
- The insurance provided by FHA under this program may help reduce exposure to credit risk.
- Loans originated through Section 184 Indian Home Loan Guarantee Program may be positively considered under the Community Reinvestment Act, depending on the geography or incomes of the participating borrowers.

## Potential Challenges

- Lenders must have a way to access the program, whether through direct sales or a correspondent arrangement, as discussed in the introduction to this section. Depending on the arrangement, community banks may need to acquire or develop new expertise and infrastructure in order to participate.
- Manual underwriting is a requirement of this program.
- A limited pool of borrowers is eligible for this program. The borrower must be a currently enrolled member of Federally Recognized Tribe.
- A lender or mortgagee is removed from the lender approval list if there has been no Section 184 Indian Home Loan Guarantee Program activity for six consecutive months.

## ADDITIONAL INFORMATION

Training is currently not being offered by HUD due to staffing constraints. Lenders may originate loans under the program without formal training or HUD approval. The Office of Loan Guarantees will match new lenders with experienced lenders. In addition, the Office will assign a regional loan specialist who will help the lender generate complete application packages.

## RESOURCES

### FHA mortgage limits

<https://entp.hud.gov/idapp/html/hicostlook.cfm>

### Section 184 Underwriting guide

<http://portal.hud.gov/hudportal/documents/huddoc?id=PIH201422UndrwritGuidelns.pdf>

## Section 184A: Native Hawaiian Housing Loan Guarantee Program

The Hawaiian Homes Commission Act of 1920, as amended, set aside lands in Hawaii known as Hawaiian homelands. These lands are held in trust for the benefit of eligible Native Hawaiians. Because of the unique status of Hawaiian homelands, the Section 184A program was created in 2000 to provide increased access to sources of private financing for Native Hawaiians.

**Requirements:** The participation requirements are the same as for the Section 184 program.

**Participation:** Loans are originated and serviced by lenders that have completed Section 184A training, and participating lenders are:

- approved by HUD's Office of Native American Programs (HUD/ONAP) to originate Section 184A Native Hawaiian Housing Loan Guarantee loans;
- approved by HUD/FHA for participation in the single-family mortgage insurance program;
- authorized by the U.S. Department of Veterans Administration Affairs (VA) to originate automatically guaranteed housing loans;
- approved by the U.S. Department of Agriculture to make loans for single-family housing; or
- supervised, approved, regulated, or insured by any agency of the federal government.

**Secondary Market:** A Section 184A Native Hawaiian Housing Loan Guarantee loan, including the security given for the loan, may be sold or assigned by the lender to any financial institution. However, it is subject to examination and supervision by an agency of the federal government or of any state. Fannie Mae, Freddie Mac, Ginnie Mae, and some Federal Home Loan Banks can purchase Section 184A Native Hawaiian Housing Loan Guarantee loans.

## Good Neighbor Next Door

### Gives public servants a path to homeownership

#### BACKGROUND AND PURPOSE

The Good Neighbor Next Door (GNND) strengthens communities by making homeownership possible for public servants. The program enables affordable homeownership opportunities in neighborhoods designated as “revitalization areas” to full-time law enforcement officers, pre-kindergarten through 12th-grade teachers, firefighters, and emergency medical technicians (EMTs) via a 50 percent discount off the purchase price of the property. HUD designates revitalization areas based on neighborhood household income, homeownership rate, and FHA-insured mortgage foreclosure activity. The program provides discounts on the purchase of HUD-owned homes and qualified GNND buyers seeking an FHA-insured mortgage are eligible for a minimum down payment of \$100 instead of the standard 3.5 percent of the adjusted value of the property, and can include closing costs and prepaid expenses in the FHA-insured mortgage.

To participate, borrowers must verify their employment status, find a HUD-owned single-family property through the HUD Homes database (listed by state), and purchase it through the program within seven days. Eligible properties are HUD real estate owned (REO) single-family, one- to four-unit residential properties acquired as a result of a foreclosure on the underlying FHA-insured mortgage for properties within designated revitalization areas. A limited number of properties are available under this program.

Purchasers are responsible for finding their own financing and paying closing costs and broker fees, if applicable. Purchasers may be qualified for FHA or VA insured loans or various federal programs based on their special status and/or income level. The GNND program can work in conjunction with other home-buying programs provided the purchaser meets all GNND requirements. For example, the FHA Section

PROGRAM NAME	Good Neighbor Next Door Program (GNND)
AGENCY	U.S. Department of Housing and Urban Development
EXPIRATION DATE	Not Applicable
APPLICATIONS	Not Applicable
WEB LINK	<a href="http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/reo/goodn/gnndabot">http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/reo/goodn/gnndabot</a>
CONTACT INFORMATION	Lenders that have questions about the program can contact their local HUD Homeownership Center (HOC) that has a GNND Coordinator. HOCs and their service areas are listed at <a href="https://entp.hud.gov/clas/info2.cfm">https://entp.hud.gov/clas/info2.cfm</a>
APPLICATION PERIOD	Continuous
GEOGRAPHIC SCOPE	HUD-owned properties in HUD designated “Revitalization Areas”



203(k) mortgage program helps homebuyers buy a home and have enough money to rehabilitate or repair it (repairs must cost more than \$5,000). The cost of the repairs and the mortgage are combined into a single monthly payment. The FHA 203(b) mortgage program can be used to finance the purchase and repairs under \$5,000.

GNND borrowers are required to sign a second mortgage and note for the discount (50 percent) on the purchase of the home. No interest or payments are required as long as the borrower remains in the home for a total of 36 months. After three years, HUD's second mortgage is released provided that the participant has completed and returned the required annual certifications, is not currently under investigation by the Office of Inspector General, and complies with all GNND regulations. The second mortgage will not show up on the title of the property after it is released. Once this is released, the purchaser is free to sell the home and keep the equity and/or appreciation generated by the sale.

## BORROWER CRITERIA

**Purchasers:** The home must be located in a HUD-designated revitalization area and must be owned by HUD. Borrowers must fit one of three criteria:

1. Law enforcement officials can participate if they are employed full-time by a law enforcement agency of the federal government, a state, a unit of general local government, or an Indian Tribal government.
2. Teachers may participate if they are employed as a full-time teacher by a state-accredited public school or private school that provides direct services to students in pre-kindergarten through grade 12 from the area where the teacher purchases the home.
3. Firefighters and emergency medical technicians may participate if they are employed full-time as a firefighter or EMT by a fire department or emergency medical services responder unit of the federal government, a state, unit of general local government, or an Indian tribal government serving the area where the home is located.

**Income limits:** This program has no income limits.

**Credit:** Borrowers applying for FHA-insured mortgages must meet FHA's minimum credit score requirements. If the borrower's minimum decision credit score is above 580, they are eligible for maximum financing. If the credit score is between 500 and 579, the borrower is limited to a maximum loan to value of 90 percent.

**First-time homebuyers:** The borrower does not have to be a first-time homebuyer to participate.

**Special populations:** Full-time law enforcement officers, firefighters, teachers, and EMTs purchasing a HUD-owned home in a designated revitalization area for use as their sole residence.

## POTENTIAL BENEFITS

There are no income or credit requirements as long as the purchaser meets the employment qualifications, widening the pool of potential applicants.

Since the Good Neighbor Next Door is not a mortgage program, non FHA-approved lenders can finance the mortgage for the property if the borrower meets conventional loan requirements. Lenders are making the equivalent of a 50 percent LTV loan.

## POTENTIAL CHALLENGES

The potential market for this program is limited because of the restrictions on both property type and applicant employment.

Foreclosed homes may have quality issues, in which case lenders should be familiar with renovation loan programs to correct deficiencies.

### **Occupancy and ownership of other properties:**

Borrowers may not own any other residential property at the time they submit the offer to purchase a home and for one year previous to the date. The program can be used to purchase a single-unit home, townhouse, or condominium.

## **LOAN CRITERIA**

**Loan limits:** FHA mortgage limits vary by the number of units and by the county or Metropolitan Statistical Area in which the property resides. HUD issues a Mortgagee Letter announcing the new mortgage limits every year.

**Loan-to-value limits:** If financing the purchase with an FHA-insured mortgage, maximum LTV is based on the borrower's credit score. If the borrower's minimum decision credit score is above 580, they are eligible for maximum financing. If the credit score is between 500 and 579, the borrower is limited to a maximum LTV of 90 percent.

**Down payment sources:** Borrowers must arrange the financing, closing costs, and fees on their own. If financing the purchase with an FHA-insured mortgage, FHA allows for various acceptable sources of funds to cover down payment costs. The acceptable sources fall into six categories, including cash and savings/checking account funds; investment funds; gifts; funds resulting from the sale of personal or real property; loans and grants; and employer assistance.

**Homeownership counseling:** Counseling is not a requirement of the program, but HUD Homeownership Centers have GNND program coordinators who can help purchasers with the process.

**Mortgage insurance:** If financing the purchase with an FHA-insured mortgage, the mandatory note and second mortgage are not included in the upfront and annual mortgage insurance premium (MIP) associated with the purchase of a GNND property. The upfront and annual MIP should be based on the average outstanding principal obligation of the first mortgage.

**Debt-to-income ratio:** If financing the purchase with an FHA-insured mortgage, HUD requires lenders to calculate two ratios to determine if a borrower can reasonably meet the expected expenses. First, the mortgage payment expense-to-effective income ratio (or front-end DTI) should not exceed 31 percent.

Second, the total fixed payment-to-effective income ratio (or back-end DTI) should not exceed 43 percent. Ratios that exceed 31 percent or 43 percent may be acceptable if the lender documents qualified "significant compensating factors." In the event the borrower has student loan debt and is not yet in repayment, as is the case for current students, FHA's policy is to include 2 percent of the total student loan balance in the debt-to-income calculation. For example, if the student has a current debt of \$20,000, then FHA would add \$400 to the DTI calculation.

**Temporary interest rate buy downs:** If financing the purchase with an FHA-insured mortgage, temporary interest buy downs are permitted.

## **Potential Benefits**

- There are no income or credit requirements as long as the purchaser meets the employment qualifications, widening the pool of potential applicants.
- Since GNND is not a mortgage program, non FHA-approved lenders can finance the mortgage for the GNND property if the borrower meets conventional loan requirements. Lenders are making the equivalent of a 50 percent LTV loan.
- GNND may allow community banks to expand their customer base in low- and moderate-income communities.
- GNND offers competitive pricing and terms.
- Lenders are not responsible for monitoring or servicing HUD's second mortgage. The National Servicing Center in Tulsa monitors the servicing of the GNND second mortgage after closing and files the release with the county recorder after successful completion of the three-year residence requirement.

## **Potential Challenges**

- The potential market for this program is limited because of the restrictions on both property type and applicant employment.
- Foreclosed homes may have quality issues, in which case lenders should be familiar with renovation loan programs to correct deficiencies.

## RESOURCES

### General information

[http://portal.hud.gov/hudportal/HUD?src=/program\\_offices/housing/sfh/reo/goodn/gnndabot](http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/reo/goodn/gnndabot)

### GNND-eligible participants

[http://portal.hud.gov/hudportal/HUD?src=/program\\_offices/housing/sfh/reo/goodn/particip](http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/reo/goodn/particip)

### HUD Handbook 4000.1

<http://portal.hud.gov/hudportal/documents/huddoc?id=40001HSGH.pdf>

- See section II.A.8.o for GNND program information
- See section II.A. 2.b.i for general FHA credit requirements.

**HUD Mortgagee Letter 2013-20** (clarification about program MIP payments; includes sample note and second mortgage)

<http://portal.hud.gov/hudportal/documents/huddoc?id=13-20ml.pdf>

### HUD Homeownership Center (HOC) contacts and service areas

<https://entp.hud.gov/clas/info2.cfm>

### HUD homes database (updated daily)

<http://www.hudhomestore.com/home/index.aspx>

## U.S. Department of Agriculture

*We have included the most recent information available at the date of publication. At the end of each section, we include a list of resources with web links where you can find updates, as well as information about additional programs and other helpful information related to the subject.*

### OVERVIEW

The U.S. Department of Agriculture (USDA) Rural Development's (RD) single-family lending programs provide a path to homeownership for people living in rural areas making between 50 and 115 percent of area median income. This section focuses on the elements of USDA's housing programs that offer opportunities for bank participation.

Rural Development (RD) oversees housing, community facilities, water and waste disposal, utilities, broadband access, and financing for rural businesses. USDA maintains an extensive network of field offices in rural areas across the country.

The Section 502 Single Family Housing Guaranteed Loan program (Section 502 Single Family) is funded through fees so it is not subject to appropriations. Community banks can directly originate, underwrite, fund, and/or service these loans.

Unlike the Section 502 Single Family program, Section 502 Direct loans and Section 504 Repair Loans and Grants are subject to appropriations. For these programs, RD acts as the lender, but community banks can help customers access the program by acting as fee-based loan packagers. RD's liquidity for these programs is obtained through the recycling of loans and through Ginnie Mae, with appropriated funds acting as either grants or equity to write down the effective loan rate.

Although housing costs are generally lower in rural communities, lower incomes make housing options unaffordable for many rural residents. Rural communities are four times more likely than urban areas to have at least 20 percent of their population living in poverty.

USDA provides specific definitions for very low-, low-, and moderate-income borrowers that differ from the Community Reinvestment Act definitions. USDA Rural Housing programs assist rural borrowers who have very-low incomes (below 50 percent of area median income or AMI), low-incomes (below 80 percent of AMI), and moderate-incomes (the greater of 115 percent of the AMI, 115 percent of the average of the state and state non-metro area median incomes, or 115/80 percent of the area low-income limits). The definition of moderate income for rural areas is set higher than the AMI because incomes overall tend to be low compared to urban areas so that the area median income is also significantly lower. Therefore, people above the area median income may still require assistance to afford adequate housing.

### Programs covered in this section:

#### **Section 502 Single Family Housing Guaranteed**

**Loan:** Helps rural residents who have a steady income of not more than 115 percent of AMI (as defined by USDA), but are unable to obtain conventional financing by offering a guarantee on loans originated by private lenders. This guarantee substantially reduces the risk for lenders, thus encouraging them to make loans to rural residents who have only modest incomes and little collateral.

**Section 502 Direct Loan:** This program assists applicants with incomes below 80 percent of AMI (as defined by USDA) in obtaining decent, safe, and sanitary housing. Section 502 Direct loans are underwritten and serviced by USDA at market interest rates, but payment assistance is used to bring the interest rate down to as low as 1 percent.

**Section 504 Repair Loans and Grants:** Helps owner occupants with incomes less than 50 percent of AMI (as defined by USDA) repair, improve, or modernize a home, with a special focus on removing health and safety hazards. Limited purpose grants are available for senior homeowners who cannot repay a loan.

## DOING BUSINESS WITH USDA

### Benefits

For community banks that operate in rural areas, financing guaranteed by USDA may be a good option for households with incomes less than 115 percent of area median income (as defined by USDA) who find it difficult to meet the down payment requirements of conventional loans. USDA financing carries a 90 percent guarantee. Lenders can also help meet the special needs of rural customers as fee-based packagers for USDA's direct loan and grant programs to very-low and low-income households.

### Delivery Options

#### Becoming a USDA lender

Lenders with a service area confined to a single state may apply through their state USDA Rural Development office. However, to originate loans in more than one state, lenders must apply with a consolidated application through the national USDA Rural Development office. Application requirements for single state and national lenders are the same.

Lenders are generally approved on the basis of expertise demonstrated through participation in other single-family loan making programs. They may demonstrate approval for single-family loan activities by a secondary market entity such as Fannie Mae, Freddie Mac, or Ginnie Mae, and show evidence of having originated, underwritten, and/or serviced single-family residential mortgages in the past year.

Banks without other secondary market entity approval can apply by demonstrating ability and expertise in mortgage lending activity. A lender that does intend to service USDA loans must provide a written plan of policies and procedures for servicing residential mortgage loans, evidence of a written plan if the lender contracts for escrow services, and evidence that the lender has serviced single-family residential mortgage loans in the year before applying for USDA approval.

The originating lender may be required to indemnify Rural Development should the Agency determine that negligent underwriting attributed to a loss claim payment paid by the Agency.

USDA maintains an extensive network of state and local offices, so the first step for lenders interested in participating in the program is to contact the relevant State Guaranteed Loan Coordinator. Approval as an accredited lender is conditional on completion of mandatory training. The State Guaranteed Loan Coordinator is the best source of information

## PROGRAMS IN THIS SECTION:

### Section 502 Single Family Housing

**Guaranteed Loan:** Helps rural residents who have a steady income of not more than 115 percent of AMI (as defined by USDA), but are unable to obtain conventional financing by offering a guarantee on loans originated by private lenders. This guarantee substantially reduces the risk for lenders, thus encouraging them to make loans to rural residents who have only modest incomes and little collateral.

**Section 502 Direct Loan:** This program assists applicants with incomes below 80 percent of AMI (as defined by USDA) in obtaining decent, safe, and sanitary housing. Section 502 Direct loans are underwritten and serviced by USDA at market interest rates, but payment assistance is used to bring the interest rate down to as low as 1 percent.

**Section 504 Repair Loans and Grants:** Helps owner occupants with incomes less than 50 percent of AMI (as defined by USDA) repair, improve, or modernize a home, with a special focus on removing health and safety hazards. Limited purpose grants are available for senior homeowners who cannot repay a loan.

about training requirements and availability. Forms, guidance, training, and marketing materials can be accessed through the online portal USDA LINC (Lender Interactive Network Connection).

### **Becoming a USDA Servicer**

To service USDA loans, a lender must provide USDA with written criteria concerning the policies and procedures that they use for servicing residential mortgage loans. If a lender intends to contract with other entities for tasks such as servicing or holding funds for taxes and insurance in escrow, they must contract with agency-approved entities and provide a written contracting plan.

### **Originating USDA loans as a correspondent lender or approved investor**

Smaller lenders often turn to investors or aggregators to help them carry out underwriting, funding, and/or secondary market sales functions. Correspondent lenders typically fund loans in their own names, and then sell them to investors who in turn sell the loans into the secondary market. In some cases, the correspondent lenders handle the underwriting in-house. In others, the investor acts as the underwriter. Smaller lenders that are interested in originating loans but do not have the internal capacity to either underwrite or fund the loans can also work with investors with the lender carrying out the origination function while looking to the investor to underwrite and fund the loans in the name of the investor.

Banks can originate USDA loans by working with an investor that will underwrite and close the loan in its name or purchase the USDA loan after it closes. The originating lender can close USDA loans in its name as long as the loan was reviewed by the approved lender investor and is transferred to the approved lender investor immediately upon closing and before issuance of a loan note guarantee. A USDA loan may be sold only to a lender approved by Fannie Mae or Freddie Mac. The lender investor is responsible for meeting USDA standards for loan origination, underwriting, and closing activities.

### **Selling USDA Loans**

USDA does not purchase and securitize loans. Instead, USDA loans are delivered to the secondary market through Ginnie Mae's guaranteed mortgage-backed

securities. Securities are issued by private financial institutions and payments to investors in these securities are guaranteed by Ginnie Mae, a government organization within the U.S. Department of Housing and Urban Development (HUD). USDA lenders can sell USDA loans by:

- becoming a Ginnie Mae approved issuer;
- selling USDA loans to Fannie Mae or Freddie Mac (for Freddie Mac, sellers must obtain special approval and loans have recourse to the lender); or
- selling USDA loans to third-party Ginnie Mae-approved industry conduits or aggregators, including certain Federal Home Loan Banks and state housing finance agencies.

### **System Requirements and Quality Control**

Lenders are encouraged to originate Section 502 Single Family loans entirely online. The Guaranteed Underwriting System, or GUS, is an automated system designed to help authorized lenders process Section 502 Single Family loan applications. There is no fee to use it, and its use is optional. GUS may be used for eligibility determination, prequalification, or final submission to USDA's Rural Development. USDA has a national coordinator to ensure that state offices create efficient systems for reviewing loan applications, storing loan documentation, offering conditional commitments, accounting for individual state requirements and waivers, and working with lenders to correct deficiencies.

Lenders are required to have a written quality control plan and a quality control team that operates independently from the loan origination or servicing function. Lenders may also contract with outside parties to carry out quality control functions.

### **Funding Availability**

While the Section 502 Single Family program is not funded through appropriations, there is a limit to the loan volume the government will guarantee each year. States in which demand exceeds supply may apply for funds to be reallocated from states that are not using their caps. Processing times vary depending on funding availability, program demand in the area in which an applicant is interested in buying, and completeness of the application package.

## RESOURCES

**USDA Rural Development Guaranteed Loan Program Technical Handbook:** Rules and regulations covering all aspects of the Rural Development Guaranteed Loan Program.

<http://www.rd.usda.gov/publications/regulations-guidelines/handbooks#hb13555>

**USDA Rural Housing Single Family Housing Guaranteed loan contacts:** Contact information for all state guaranteed loan coordinators.

<http://eligibility.sc.egov.usda.gov/eligibility/welcomeAction.do?pageAction=GetRHContact&NavKey=contact@12>

**USDA Lender Interactive Network Connection:** Lender training and resource library.

<https://usdalinc.sc.egov.usda.gov/USDALincTrainingResourceLib.do>

**USDA income and property eligibility site:** Allows lenders to enter a property address to determine eligibility for USDA's loan programs.

<http://eligibility.sc.egov.usda.gov>

**Fannie Mae's guidance on delivery of USDA loans**

[https://www.fanniemae.com/content/fact\\_sheet/liquidity-for-government-guaranteed-rural-and-native-american-loans-fact-sheet.pdf](https://www.fanniemae.com/content/fact_sheet/liquidity-for-government-guaranteed-rural-and-native-american-loans-fact-sheet.pdf)

**Freddie Mac's guidance on delivery of USDA loans**

<http://www.freddiemac.com/singlefamily/expmkts/guarrur.html>

**Doing business with Ginnie Mae**

<http://www.ginniemae.gov/pages/default.aspx>

**Approved Ginnie Mae issuers**

[http://www.ginniemae.gov/issuers/third\\_party\\_providers/Pages/document\\_custodian.aspx](http://www.ginniemae.gov/issuers/third_party_providers/Pages/document_custodian.aspx)



### Using USDA's Section 502 Single Family Program

*The FDIC talked with community bankers about their participation in the U.S. Department of Agriculture's Section 502 Single Family Housing Guaranteed Loan Program. The following are excerpts from these discussions.*

The USDA Section 502 Single Family Housing Guaranteed Loan Program (Section 502 Single Family) is a no down payment loan product geared toward low- and moderate-income rural borrowers who might lack the necessary resources to secure a conventional loan.

#### Working with USDA

Banks have options about how they work with USDA, and can become an approved lender on a national or state level. One bank, which covers a tri-state area, decided to become a USDA national lender. The national approval allows the bank to originate USDA loans in any state in the country. Another banker stated that her bank has been making USDA loans for the past eight years as a state-specific lender. Both bankers said that once the banks were approved, USDA staff offered training for both operations staff and loan officers.

The USDA national lender bank representative described the 30- to 60-day lender approval process as straightforward. "The approval process was fairly easy. You complete your application, you get your approval, and then you go through some training. It's not an overwhelming process." In addition, there were not any costs (upfront or annual renewal fees or system costs) incurred by the institution to become a USDA lender.

One representative stated that his bank works with an investor that underwrites its USDA loans and buys them after closing. The bank originates the loan and puts the USDA loan package together for the investor's and USDA's approval. Once the investor and the USDA approve the loan, the loan can close in the bank's name. "Regardless of whether you are underwriting in-house or you are going to an investor to underwrite it for you, USDA still has to sign off on the deal." After

the loan closes, the bank sells the loan to the investor. "Having the eventual investor underwrite the loans provides a level of comfort for the bank since I know [before it closes] that they are going to buy it," said the representative. This helps protect the bank from possible repurchase risk while its staff members continue to build their expertise in the product.

#### Benefits of Offering USDA Loans

For one small community bank, the USDA single-family loan program offers another way to help customers become homeowners, and also enables the bank to deliver loans into the secondary market. The banker said that her bank decided to start offering USDA loans because USDA allows higher loan-to-value ratios and somewhat lower credit scores than the bank can offer using its regular products. She added that "USDA's product has a fixed rate and you have the ability to roll repair costs into the financing if needed." Her bank originates, underwrites, and closes its own USDA loans, and then sells the loans to an investor.

#### Challenges of Offering USDA Loans

One of the biggest challenges with these loans is the appraisal process and making sure the property meets the HUD handbook guidelines, said one representative. (USDA uses the HUD guidelines for its programs.) "There is usually much negotiating between the seller and the buyer on what needs to be done to meet the HUD handbook standards with regard to outlets, painting, roofing, etc. It is a good program, but this leads to delays and frustration with both the buyer and the seller. It takes time to negotiate who will pay, getting the work performed, and getting the final inspection from the appraiser."

In addition, these lenders report that the program loans can help address the needs of borrowers with more limited reserves, lower credit scores, or somewhat higher debt-to-income ratios than conventional fixed-rate loans. However, they need added underwriting time to ensure that standards are addressed. Another banker added that USDA loans do take more time to process, but her bank continues to offer the Section 502 Single Family loan product because the low down payment benefits the customer. She noted that the product helps serve first-time homebuyers, which make up about 75 percent of the bank's customers for these loans.

One banker explained that management is focused on making sure all the loan officers are familiar with the basic components and characteristics of all of the bank's mortgage products, including the USDA programs. To spread the word, the executives hold monthly meetings where they educate loan officers about the various products and how they might benefit potential customers. This way, if a customer who might be a good fit for the USDA product comes in and speaks with a loan officer who is less familiar with originating the USDA product, the officer can still identify the customer as a good match with the product and refer the opportunity to a loan officer with more USDA experience. Another representative uses both USDA's materials on loan requirements and a bank-created promotional flyer for the program that includes the contact information for the individual lenders to communicate the program opportunity.

### **Advice to Other Bankers Considering USDA**

When asked what advice they would give to other bankers considering offering the USDA's 502 Single Family Housing Guaranteed Loan Program, one banker offered, "I think I would start out originating USDA loans with an investor through a correspondent relationship to reduce the repurchase risk until you are comfortable with the product. And make sure your staff is trained well." Another representative added that when looking for an investor, a bank should seek out a company that, among other things, is easy to work with, has clear instructions on file content, and minimal overlays beyond the USDA program guidelines.

## Section 502 Single Family Housing Guaranteed Loan Program

No down payment loans for rural borrowers with incomes below 115 percent of area median income as defined by USDA

### BACKGROUND AND PURPOSE

The U.S. Department of Agriculture's (USDA) Section 502 Single Family Housing Guaranteed Loan Program (Section 502 Single Family) is designed to serve eligible rural residents with incomes below 115 percent of area median income or AMI (see USDA definition in overview) who are unable to obtain adequate housing through conventional financing. Guaranteed loans are originated, underwritten, and closed by a USDA-approved private sector or commercial lender. The Rural Housing Service (RHS) guarantees the loan at 100 percent of the loss for the first 35 percent of the original loan and 85 percent of the loss on the remaining 65 percent. The program is entirely supported by the upfront and annual guarantee fees collected at the time of loan origination.

### BORROWER CRITERIA

**Income limits:** This program is limited to borrowers with incomes up to 115 percent of AMI (as defined by USDA). Approximately 30 percent of Section 502 Single Family loans are made to families with incomes below 80 percent of AMI. An applicant must have dependable income that is adequate to support the mortgage.

**Credit:** Borrowers must have reasonable credit histories and an income that is dependable enough to support the loans, but be unable to obtain reasonable credit from another source.

**First-time homebuyers:** If funding levels are limited near the end of a fiscal year, applications are prioritized to accommodate first-time homebuyers.

**Occupancy and ownership of other properties:** The dwelling purchased with a Section 502 loan must be

PROGRAM NAME	Section 502 Single Family Housing Guaranteed Loan Program
AGENCY	U.S. Department of Agriculture's Rural Housing Service
EXPIRATION DATE	Not Applicable
APPLICATIONS	Contact your local Rural Housing Service office: <a href="http://www.rd.usda.gov/contact-us/state-offices">http://www.rd.usda.gov/contact-us/state-offices</a>
WEB LINK	<a href="http://www.rd.usda.gov/publications/regulations-guidelines">http://www.rd.usda.gov/publications/regulations-guidelines</a>
CONTACT INFORMATION	Contact your local Rural Housing Service office: <a href="http://www.rd.usda.gov/contact-us/state-offices">http://www.rd.usda.gov/contact-us/state-offices</a>
APPLICATION PERIOD	Continuous
GEOGRAPHIC SCOPE	Rural areas: To determine whether a property is in an eligible area, see <a href="http://eligibility.sc.egov.usda.gov/eligibility/welcomeAction.do?pageAction=sfp&amp;NavKey=property@11">http://eligibility.sc.egov.usda.gov/eligibility/welcomeAction.do?pageAction=sfp&amp;NavKey=property@11</a>

the borrower's primary residence. A borrower may be eligible to retain a current dwelling if it no longer meets the household's needs. The dwelling that the borrower is retaining, if applicable, may not be financed with a Section 502 Single Family loan or Section 502 Direct loan.

**Special populations:** If funding levels are limited near the end of a fiscal year, applications are prioritized to accommodate veterans.

**Special assistance for persons with disabilities:** Special design features or permanently installed equipment to accommodate a household member who has a physical disability may be financed into the loan.

#### **Property types and allowable costs:**

- Existing homes must meet minimum property standards as established in the current U.S. Department of Housing and Urban Development (HUD) Handbook.
- New dwellings must meet an acceptable building code.
- There are no restrictions on size or design.
- New manufactured homes are eligible. Existing manufactured homes are not eligible unless the home is already secured with a USDA Section 502 Direct mortgage. Manufactured homes do not have to be considered real property under the applicable jurisdictional laws.
- Necessary interior and exterior repairs that together with the purchase price do not exceed the appraised value of an existing home may be included in the loan.
- Reasonable and customary lender fees, connection fees, assessments, establishment of an escrow account for the payment of real estate taxes and insurance, and other eligible costs may be financed.
- Purchase and installation of energy efficiency measures (e.g., insulation, double-paned glass, and solar panels) is an allowable cost.
- Installation of fixed broadband service to the household is an allowable cost as long as the equipment is conveyed with the dwelling.
- Site preparation costs, including grading, foundation, plantings, seeding or sod installation, trees, walks, fences, and driveways are allowable costs.

**Other:** Applicants must meet U.S. citizenship or eligible noncitizen requirements.

## **LOAN CRITERIA**

**Loan limits:** Loan limits do not apply.

**Loan-to-value limits:** The loan-to-value ratio may be up to 100 percent of market value or acquisition cost, whichever is lower.

## **POTENTIAL BENEFITS**

USDA Section 502 Single Family Guaranteed Home Loans may allow community banks to expand their customer base among borrowers in rural communities with incomes below 115 percent of the area median income (as defined by USDA).

USDA offers up to a 90 percent guarantee.

## **POTENTIAL CHALLENGES**

Community banks must be approved by USDA to lend under this program, and they may need to acquire or develop new expertise and infrastructure in order to participate.

Community banks must have access to the secondary market to use this program.

**Down payment sources:** Assets above the limits set by USDA must be used toward the home purchase; otherwise, no down payment is required. Applicants may use down payment assistance programs to assist with the down payment and/or payment of closing costs/fees.

**Homeownership counseling:** Counseling is not required.

**Mortgage insurance:** USDA charges guarantee fees that act as mortgage insurance, similar to the Federal Housing Administration (FHA). However, they are called “Guarantee Fees” not mortgage insurance in documentation. Where “insurance” appears in the Rural Housing Service’s documentation, it refers to homeowner’s insurance. The Rural Housing Service charges the lender a one-time upfront guarantee fee of up to 3.5 percent of the total loan amount. An annual fee of up to 0.5 percent also applies for the life of the loan. The lender may pass these fees on to the borrower and may finance them in the loan.

**Debt-to-income ratio:** Baseline ratios for the program based on gross monthly income are 29 percent for the principal, interest, real estate taxes, and insurance (PITI) and 41 percent for the total debt, which is the PITI plus additional recurring monthly debts. In the event the borrower has student loan debt and is not yet in repayment, as is the case for current students, USDA’s policy is to include 1 percent of the total student loan balance in the debt-to-income calculation, and to not lend to current students unless there is a reasonable likelihood that they will remain in the home after graduation.

**Temporary interest rate buy downs:** Borrowers must qualify at the full note interest rate, but temporary interest rate buy downs are allowed.

**Refinance:** Refinance is allowed for current Section 502 Single Family loans or Section 502 Direct loans. Non-USDA loans are ineligible to be refinanced into the Section 502 Single Family Home Loan program.

**Interest rate:** Fixed interest rates are negotiated between the lender and applicant. The interest rate may not exceed the market rate. Adjustable-rate mortgages, balloons, interest-only, and other loans are not eligible options.

**Term:** Loans must have 30-year amortization terms.

**Secondary market:** Loans are acceptable to Fannie Mae, Freddie Mac, and Ginnie Mae.

**Guarantee:** Rural Housing Service guarantees the loan at 100 percent of the loss for the first 35 percent of the original loan and 85 percent of the remaining 65 percent. The maximum loss payable by RHS cannot exceed 90 percent of the original loan amount.

## Potential Benefits

- USDA Section 502 Single Family Guaranteed Home Loans may allow community banks to expand their customer base among borrowers in rural communities with incomes below 115 percent of AMI (as defined by USDA).
- USDA offers up to a 90 percent guarantee.
- Section 502 Single Family Guaranteed Home Loans offer competitive pricing and terms.
- Loans originated through USDA may be positively considered under the Community Reinvestment Act, depending on the geography or incomes of the participating borrowers.

## Potential Challenges

- Community banks must be approved by USDA to lend under this program, and they may need to acquire or develop new expertise and infrastructure in order to participate.
- Community banks must have access to the secondary market to use this program.
- A limited pool of borrowers is eligible for this program due to the geographic constraints and income limits. Borrowers must have reasonable credit histories and an income that is dependable enough to support the loans, but be unable to obtain affordable credit from another source.
- The servicer must have an escrow system for taxes and insurance.

## SIMILAR PROGRAMS

- USDA Section 502 Direct Loan
- VA Home Purchase Loan Program
- FHA 203(b) Mortgage Insurance Program

## RESOURCES

### Area and county loan limits

[http://www.rd.usda.gov/files/RD-SFHAreaLoanLimitMap\\_0.pdf](http://www.rd.usda.gov/files/RD-SFHAreaLoanLimitMap_0.pdf)

### Minimum property standards

<http://www.rd.usda.gov/files/3550-1chapter05.pdf>

### International building code adopted throughout most of the United States

<http://www.iccsafe.org/codes-tech-support/codes/2015-i-codes/ibc/>

### Property rural status and eligibility

<http://eligibility.sc.egov.usda.gov>

## Section 502 Direct Loan

### Packaging loans for rural borrowers made affordable with payment assistance to reduce the interest rate

#### BACKGROUND AND PURPOSE

This program helps low-income borrowers obtain housing in eligible rural areas by providing payment assistance, a type of subsidy that reduces the mortgage payment to increase an applicant's repayment ability. The U.S. Department of Agriculture (USDA) provides an eligibility map on its website to determine if a property is in a qualified rural area (see resources).

Section 502 Direct loans are underwritten and serviced by the USDA at market interest rates, but payment assistance brings the interest rate down to as low as 1 percent. Funds can be used to build, repair, renovate, or relocate a home, or to purchase and prepare sites, including providing water and sewage facilities.

Community banks may only package applications, not originate loans, but they can earn a fee for doing this. Any costs above fixed limits will not be reimbursed by USDA. Packaging fees that are not charged by a

nonprofit or government entity cannot be folded into the loan.

#### BORROWER CRITERIA

**Income limits:** Applicants must have very-low or low incomes (as defined by USDA), and at least 40 percent of the funding appropriated each year must go to very low-income families. Very-low income is defined as below 50 percent of area median income (AMI); low income is between 50 and 80 percent of AMI.

**Credit:** Beneficiaries must be unable to obtain a loan from other sources on reasonable terms and conditions; that is, they would not otherwise have access to affordable, non-predatory credit. However, borrowers must have reasonable credit histories as determined by USDA's loan officers. For applicants who do not use traditional credit or have a limited credit history, the

PROGRAM NAME	Section 502 Direct Loan
AGENCY	U.S. Department of Agriculture's Rural Housing Service
EXPIRATION DATE	Not Applicable
APPLICATIONS	No specific application is required. Contact your local RD office: <a href="http://www.rd.usda.gov/contact-us/state-offices">http://www.rd.usda.gov/contact-us/state-offices</a>
WEB LINK	<a href="http://www.rd.usda.gov/programs-services/single-family-housing-direct-home-loans">http://www.rd.usda.gov/programs-services/single-family-housing-direct-home-loans</a>
CONTACT INFORMATION	Contact your local RD office ( <a href="http://www.rd.usda.gov/contact-us/state-offices">http://www.rd.usda.gov/contact-us/state-offices</a> )
APPLICATION PERIOD	Continuous
GEOGRAPHIC SCOPE	Rural areas as determined by <a href="http://eligibility.sc.egov.usda.gov">http://eligibility.sc.egov.usda.gov</a>



loan originator must develop a credit history from at least three nontraditional credit sources such as rent payments, utility payment records, automobile insurance payments, or other means of direct access from the credit provider.

**First-time homebuyers:** This program is exclusively for first-time mortgage holders. Housing counseling is mandatory.

**Occupancy and ownership of other properties:** Prospective borrowers must be without safe, decent, and sanitary housing. Only owner occupancy is supported through this program, not income producing activities. Properties must be 1,800 square feet or less and not have a market value in excess of the applicable area loan limits.

**Special populations:** USDA offers variations on the Section 502 Direct loan for mutual self-help housing, condominium housing, community land trusts, manufactured housing, and the Rural Housing Disaster Loan Program.

**Special assistance for persons with disabilities:** Special design features or permanently installed equipment to accommodate a household member who has a physical disability may be financed using this loan.

**Other:** Borrowers must meet citizenship or eligible noncitizen requirements.

## LOAN CRITERIA

**Loan limits:** USDA has its own area loan limits that vary by county.

**Loan-to-value limits:** The loan-to-value ratio may be 100 percent or more to cover closing costs.

**Adjustable-rate mortgages:** Not allowed. A fixed interest rate is based on current market rates at loan approval or loan closing, whichever is lower. Up to a 33-year payback period or a 38-year payback period for very low-income applicants who cannot afford the 33-year loan term. For manufactured homes, the term is 30 years.

**Down payment sources:** No down payment is typically required. Applicants are required to use assets in excess of the asset limits of \$15,000 for non-elderly applicants and \$20,000 for elderly applicants as a down payment.

**Homeownership counseling:** Required for first-time homebuyers. The Rural Housing Service attempts to connect prospective buyers with free or reasonably priced counseling in the appropriate geographic area, and makes exceptions where counseling is not reasonably available.

**Mortgage insurance:** No mortgage insurance is required. "Insurance" in documentation refers to homeowner's insurance.

**Debt-to-income ratio:** The borrower's payment for principal, interest, taxes, and insurance (PITI) is the lower of 24 percent of the borrower's income or principal and interest calculated at a 1 percent interest rate

## POTENTIAL BENEFITS

Lenders can earn a fee by helping borrowers package their applications.

No preapproval or training is required by the USDA.

## POTENTIAL CHALLENGES

Community banks may only package applications, not originate loans.

It may be necessary to partner with mission-oriented organizations to develop a pipeline of prospective borrowers.

on the loan, plus taxes and insurance. Eligibility is also affected by repayment feasibility, which is determined by using ratios of repayment (gross) income to PITI and to total family debt.

**Temporary interest rate buy downs:** Not applicable.

**Refinance:** Not applicable.

**Interest rate:** Market rate. Payment assistance can reduce the interest rate to as low as 1 percent.

**Subsidy recapture:** The payment assistance subsidy that reduces the effective interest rate must be repaid to USDA when the property is sold, transferred, or no longer occupied by the customer. This works based on the assumption that the home increases in value and the borrower improves his or her circumstances through access to stable, decent, and affordable housing. If the loan is being paid off, but the customer continues to live in the property, there are two payment options: (1) the borrower pays the subsidy recapture when the loan is paid off (the subsidy recapture is discounted by 25 percent if this option is chosen); or (2) defer the payment of the subsidy recapture until the property is sold, transferred, or no longer occupied by the customer. The subsidy recapture will not be discounted when the loan is paid off, nor will the discount apply in the future if this option is chosen.

**Leverage:** Applicants who demonstrate the ability to obtain a portion of the needed funds from outside sources should do so. Loans leveraged with other funding sources receive processing priority.

## ADDITIONAL INFORMATION

**Loan packager:** Community banks may charge a fee to act as a loan packager for interested borrowers, though the service is optional for borrowers. USDA supports partnerships with loan application packagers since packagers can promote the program in underserved areas, prescreen, and educate potential applicants to save USDA staff time, counsel potential applicants on how to improve their ability to qualify, and ensure that applications are complete. Processing times vary depending on funding availability and program demand in the area in which an applicant is interested in buying and completeness of the application package. Typically, applicant eligibility, loan approval, and loan closing may be accomplished

within approximately 90 days of filing of the written application. However, depending on the availability of government funding, this time frame may be extended. The applicant is periodically advised regarding the status of his or her application when there is lack of funding.

**Funding:** The Section 502 Direct Loan program is subject to appropriations. Typically, about \$900 million is available annually.

## Potential Benefits

- Lenders can earn a fee by helping borrowers package their applications.
- No preapproval or training is required by USDA.
- Favorable consideration under the Community Reinvestment Act for serving low-income borrowers and communities with credit-related activities is available even when banks do not originate the loans, if the role as packager is explained and numbers and characteristics of borrowers assisted is documented (it is helpful to include income and census tract information).

## Potential Challenges

- Community banks may only package applications, not originate loans.
- It may be necessary to partner with mission-oriented organizations to develop a pipeline of prospective borrowers.
- Depending on the needs in a bank's service area, funding may not be adequate to the need.
- Only available in rural areas, which may not correspond to a bank's service area.

## RESOURCES

Property rural status and eligibility

<http://eligibility.sc.egov.usda.gov/>

Requirements for loan packagers (page 460)

<http://www.rd.usda.gov/files/hb-1-3550.pdf>

Area and county loan limits

[http://www.rd.usda.gov/files/RD-SFHAreaLoanLimitMap\\_0.pdf](http://www.rd.usda.gov/files/RD-SFHAreaLoanLimitMap_0.pdf)

## Section 504 Repair Loans and Grants

Packaging loans to help low-income homeowners to repair, improve, or modernize homes

### BACKGROUND AND PURPOSE

The objective of the Section 504 Repair Loans and Grants program is to help low-income owner-occupants of modest single-family homes in rural areas repair those homes. Loan funds are available for repairs to improve or modernize a home, make it safer or more sanitary, or remove health and safety hazards. For homeowners age 62 years and older who cannot repay a loan, grant funds are available to remove health or safety hazards or to remodel dwellings to make them accessible to household members with disabilities.

Community banks may only package applications, not originate loans, but they can earn a fee for doing this. Any costs above fixed limits will not be reimbursed by USDA. Packaging fees that are not charged by a nonprofit or government entity cannot be folded into the loan.

### BORROWER CRITERIA

**Income limits:** The adjusted household income must not exceed 50 percent of the area median income (as defined by USDA).

**Credit:** Beneficiaries must be unable to obtain affordable credit elsewhere.

**First-time homebuyers:** These are repair loans and grants for existing homeowners only.

**Occupancy and ownership of other properties:** Borrowers/grantees must own and occupy the property and must be able to document ownership. Assistance is available to owner-occupants only. For manufactured homes, the home and site must be owned (or in a long-term lease) and occupied, and it must be on a permanent foundation (Section 504 funds may be used to put the manufactured home on a permanent foundation). A Section 504 loan or grant may be made

PROGRAM NAME	Section 504 Repair Loans and Grants
AGENCY	U.S. Department of Agriculture's Rural Housing Service
EXPIRATION DATE	Not Applicable
APPLICATIONS	No specific application is required
WEB LINK	<a href="http://www.rd.usda.gov/programs-services/single-family-housing-repair-loans-grants">http://www.rd.usda.gov/programs-services/single-family-housing-repair-loans-grants</a>
CONTACT INFORMATION	Contact your local RD office: <a href="http://www.rd.usda.gov/contact-us/state-offices">http://www.rd.usda.gov/contact-us/state-offices</a>
APPLICATION PERIOD	Continuous
GEOGRAPHIC SCOPE	Rural areas as determined by <a href="http://eligibility.sc.egov.usda.gov">http://eligibility.sc.egov.usda.gov</a>

for a property that has income-producing land or structures, as long as the loan or grant is used to improve only the residential portion of the property.

**Special populations:** Borrowers age 62 years and older who are not able to repay a repair loan are eligible for grant funding. Veterans receive a processing preference.

**Special assistance for persons with disabilities:** Funds may be used to remove health and safety hazards, including outfitting the home for use by a person with a disability.

**Other:** Borrowers must meet citizenship or eligible noncitizen requirements.

## LOAN CRITERIA

**Loan limits:** Borrowers may obtain multiple Section 504 loans, but the sum of the outstanding balance on all Section 504 loans cannot exceed \$20,000.

**Loan-to-value limits:** Up to 100 percent loan-to-value (LTV) ratio is allowed. If the total Section 504 indebtedness is \$7,500 or more, it must be secured by a mortgage on the property. USDA's Rural Housing Service (RHS) does not require a first-lien position, but the total of all debt secured by the property must not exceed the property's market value, except by the amount of any required contributions to an escrow account for taxes and insurance and the tax service fee. No security is required for loans below \$7,500 or grants.

**Adjustable-rate mortgages:** Only fixed-rate loans are allowed.

**Down payment sources:** Down payments are not required. If borrowers can repay part of the costs, they may be offered a loan and grant combination.

**Homeownership counseling:** Homeownership counseling is not required.

**Mortgage insurance:** Mortgage insurance is not required.

**Debt-to-income ratio:** The borrower's total housing payment including any existing mortgages must be no more than 41 percent of income.

**Temporary interest rate buy downs:** Temporary interest rate buy downs are not applicable to this program.

**Costs:** The interest rate is fixed at 1 percent for a 20-year maximum term. Grants must be repaid if the property is sold in less than three years.

## POTENTIAL BENEFITS

This program can be a way to initiate banking relationships with borrowers for whom other financial services are not affordable.

Favorable consideration under the Community Reinvestment Act for serving low-income borrowers and communities with credit-related activities is available even when banks do not originate the loans, if the role as packager is explained and the numbers and characteristics of borrowers assisted is documented (it is helpful to include income and census tract information).

## POTENTIAL CHALLENGES

Section 504 Repair Loans and Grants are available in rural areas, which may not correspond to a bank's service area.

Decisions such as estimating the value of home repairs may be outside of the typical skill set of the bank.

**Underwriting:** Section 504 loan/grant applications are underwritten by the RHS. Private lenders may assist prospective borrowers in fulfilling the application requirements. The following explains the program expectations and process:

- The Rural Housing Service Loan Originator will visit the property within 30 days of determination of eligibility to identify which repairs are essential.
- The borrower is provided detailed specifications that are used to solicit at least three bids when feasible. If there are not a sufficient number of contractors in the area, the local RHS office will review the bids that are obtained to ensure they meet the established specifications.
- The term of the loan is as short as possible based on the borrower's repayment ability. However, any loan made in conjunction with a grant is made for the full 20-year term to minimize the amount of grant funds required. If the loan amount is less than the maximum that the borrower could repay, the loan term should be shortened so that the borrower will pay the maximum amount he or she can afford each month during the term of the loan.
- Loans less than \$7,500 may be closed by the loan originator or designee. Loans of \$7,500 and greater must be closed by a closing agent.
- In order to ensure that borrowers do not receive more than the maximum allowable grant assistance of \$7,500, the loan originator will document the amount of any grant provided to each grantee.

**Grant limits:** Recipients may receive multiple grants, up to a lifetime maximum of \$7,500.

**Leverage opportunities:** When funding is available and a property's health and safety needs outstrip the borrower's ability to repay a loan, RHS may leverage Section 504 loan dollars with Section 504 grant dollars. Borrowers who demonstrate the ability to obtain a portion of the needed funds from outside sources (i.e., conventional lenders, housing authorities, and so on) should do so. Leveraged loans receive processing priority.

## ADDITIONAL INFORMATION

**Lender participation:** Community banks may charge a fee to act as a loan packager for interested borrowers, though the service is optional for borrowers. USDA supports partnerships with loan application packagers since packagers can promote the program in underserved areas, prescreen, and educate potential applicants to save USDA staff time, counsel potential applicants on how to improve their ability to qualify, and ensure that applications are complete.

Processing times vary depending on funding availability and program demand in the area in which an applicant is interested in buying and the completeness of the application package. Typically, applicant eligibility, loan approval, and loan closing may be accomplished within approximately 90 days of filing the written application. However, depending on the availability of government funding, this time frame may be extended. The applicant is periodically advised regarding the status of his or her application when there is a lack of funding.

**Funding:** The Section 504 Repair Loans and Grants program is subject to congressional appropriations. Typically, just under \$50 million is available annually between the loan and grant programs.

### Potential Benefits

- This program can be a way to initiate banking relationships with borrowers for whom other financial services are not affordable.
- Favorable consideration under the Community Reinvestment Act for serving low-income borrowers and communities with credit-related activities is available even when banks do not originate the loans, if the role as packager is explained and the numbers and characteristics of borrowers assisted is documented (it is helpful to include income and census tract information).
- Lenders can earn a fee by helping borrowers package their applications.
- No preapproval or training is required from USDA.

## Potential Challenges

- Section 504 Repair Loans and Grants are available in rural areas, which may not correspond to a bank's service area.
- Decisions such as estimating the value of home repairs may be outside of the typical skill set of the bank.
- Community banks may only package applications, not originate loans.
- Depending on the needs in a bank's service area, funding may not be adequate to the need.

## SIMILAR PROGRAMS

- Fannie Mae HomeStyle® Renovation Mortgage
- Freddie Mac Renovation Mortgage
- FHA Property Improvement Loan Insurance

## RESOURCES

### Property rural status and eligibility

<http://eligibility.sc.egov.usda.gov>

### Requirements for loan packagers (page 460)

<http://www.rd.usda.gov/files/hb-1-3550.pdf>

**USDA income and property eligibility site:** Allows lenders to enter a property address to determine eligibility for USDA's loan programs.

<http://eligibility.sc.egov.usda.gov>



## U.S. Department of Veterans Affairs

*We have included the most recent information available at the date of publication. At the end of each section, we include a list of resources with web links where you can find updates, as well as information about additional programs and other helpful information related to the subject.*

### OVERVIEW

Part of the mission of the U.S. Department of Veterans Affairs (VA) is to enable service members, veterans, and eligible surviving spouses to become homeowners. The VA provides a home loan guaranty benefit and other housing-related programs to help buy, build, repair, retain, or adapt a home for owner occupancy. VA home loans are provided by private lenders such as banks and mortgage companies. By obtaining a guaranty for a portion of the loan, private lenders are able to provide borrowers with more favorable terms, such as zero down payments.

The home loan guaranty program was originally enacted in 1944 as part of the Servicemen's Readjustment Act to put people returning from fighting in the World Wars on a path to financial stability, since they may have missed the opportunity to build favorable credit while away serving their country. It was a significant driver of the postwar construction boom. Legislation has been continually updated to reflect the changing needs of the nation's service members and veterans.

There are over 20 million veterans in the United States. The National Center for Veterans Analysis and Statistics (NCVAS), a division of the U.S. Department of Veterans Affairs, offers data on the distribution of the veteran population that may be of interest to community banks looking to start a VA home loan program. Unfortunately, public data about the geographic distribution of homes guaranteed by VA are limited because all loan guarantee expenditures are recorded as coming from the processing facility in Texas. VA reports that approximately 2.3 million service members and veterans are actively participating in VA home loan programs, which does not include

veterans who have paid off their VA-guaranteed mortgages. According to a 2010 survey by NCVAS, 66 percent of those surveyed who had ever had a home loan used VA guaranteed financing. Of those who had not used VA home loan benefits, 33 percent did not know about the program.

### IMPORTANT PROGRAM COMPONENTS

Eligibility for VA homeownership programs is determined by meeting minimum standards for length of service, which is confirmed by VA with a Certificate of Eligibility. Each veteran has a guaranty entitlement, which is a minimum of \$36,000 and a maximum of 25 percent of the county loan limit. The guaranty is the amount VA will pay the lender in the event of a foreclosure. The guaranty effectively takes the LTV ratio down to 75 percent, and negates the need for a down payment.

VA loan limits are the same as the loan limits for Fannie Mae and Freddie Mac single unit loans. Each veteran has a guaranty entitlement, which is a minimum of \$36,000 and a maximum of 25 percent of the county loan limit. VA does not set a maximum amount that an eligible veteran may borrow; however, borrowers may combine their entitlement with a down payment to purchase a property that is over the county loan limit (see resources), though such loans are more limited in their secondary market options.

The VA also offers grants for disabled service members and veterans with certain permanent and total service-connected disabilities to help purchase, construct an adapted home, or modify an existing home to accommodate a disability. The Special Adapted Housing grant is designed to facilitate independent,

barrier-free living for veterans with severely impaired mobility (note that these grants are not included in this Guide, but more information can be found in resources at the end of this section).

Prospective borrowers with other-than-honorable discharges are ineligible for VA home loan benefits and a number of other VA services. The Military Law Task Force of the National Lawyers' Guild, a service provider unaffiliated with the federal government, may be able to connect the prospective borrower with community organizations that work on discharge upgrades.

### **This Guide covers the following VA home loan programs:**

**Home Purchase Loan:** This program helps service members, veterans, and surviving spouses by providing a mortgage guarantee for loans that can have a loan-to-value (LTV) ratio as high as 100 percent.

**Interest Rate Reduction Refinance Loan (IRRRL):** The program offers special flexibilities for borrowers wishing to refinance to reduce the interest rate on their VA-guaranteed mortgage.

## **DOING BUSINESS WITH VA**

### **Benefits**

The VA home loan program features flexible yet prudent requirements, including its 100 percent financing option. VA lending volume has increased considerably as lenders have responded to mortgage market shifts to rely more on government risk-reduction programs. VA can help community banks serve their veteran customers with options designed especially for their needs. Moreover, banks may begin participating in the program almost immediately and can increase capacity over time through experience.

### **Delivery Options**

#### **Becoming a supervised VA lender with automatic authority**

Automatic authority is the authority for a lender to close VA guaranteed loans without the prior approval of VA. Supervised financial institutions, which includes banks insured by the FDIC (as well as credit unions) are granted automatic underwriting authority from VA and may begin making VA loans as soon as they become familiar with the laws, regulations, and procedures pertaining to VA-guaranteed loans. Supervised lenders may close loans in any state. While banks are automatically granted authority to make VA loans, they must nevertheless apply to the VA before they begin making VA-guaranteed loans.

Automatic authority does not cover several loan types that must be submitted to VA before approval in all instances. VA loan types that require prior approval include joint loans,<sup>3</sup> loans to veterans in receipt of a VA

## **PROGRAMS IN THIS SECTION:**

**Home Purchase Loan:** This program helps service members, veterans, and surviving spouses by providing a mortgage guarantee for loans that can have a loan-to-value (LTV) ratio as high as 100 percent.

**Interest Rate Reduction Refinance Loan (IRRRL):** The program offers special flexibilities for borrowers wishing to refinance to reduce the interest rate on their VA-guaranteed mortgage.

nonservice-connected pension, loans to veterans rated incompetent by VA, IRRRLs made to refinance delinquent loans, manufactured homes not permanently affixed to the lot, cooperative loans, unsecured loans, and supplemental loans.

### Originating VA loans as a correspondent originator through an approved lender sponsor

Smaller lenders can use an agent relationship, where an existing VA approved lender “sponsors” an entity as its agent and in doing so spells out what functions the agent will perform on its behalf. A lender’s agent must be approved by VA in advance. Depending on the terms of the VA-required corporate resolution, which spells out functions of the agent and sponsor, the agent and/or lender may fund loans in its own name and then sell the loans to investors, who in turn, sell the loans into the secondary market. Loans may be closed in the name of the sponsoring lender or in the name of the entity acting as the agent. In such a case, loan documents may read “ABC Mortgage as agent for XYZ lender.” Both supervised and non-supervised lenders with automatic authority may use agents, though in all cases recurring use of agents must be recognized by VA. The VA Lenders Handbook contains more information on agent issues.

### Selling VA loans

Unlike Fannie Mae and Freddie Mac, VA does not purchase and securitize loans. Instead, VA loans are delivered to the secondary market, most often through Ginnie Mae’s guaranteed mortgage-backed securities. Securities are issued by private financial institutions and payments to investors in these securities are guaranteed by Ginnie Mae, a government office within the U.S. Department of Housing and Urban Development (HUD). VA lenders can sell VA loans by:

- becoming a Ginnie Mae approved issuer (applicants must meet Ginnie Mae’s eligibility requirements, including capital and liquidity requirements);
- selling VA loans to Fannie Mae or Freddie Mac (Fannie Mae and Freddie Mac purchase or securitize VA-guaranteed mortgages subject to eligibility criteria that include maximum loan limits, property type, and other parameters); or

- selling VA loans to third-party Ginnie Mae approved industry conduits or aggregators, including certain Federal Home Loan Banks and state housing finance agencies.

## APPROVAL PROCESS

All FDIC-insured lenders are automatically approved to write VA loans. However, they must notify the VA office in their jurisdiction, provide some basic information, and comply with all VA requests for additional information. VA will then provide training, a VA ID number, a point of contact, and anything else deemed necessary. Supervised lenders may close VA loans on an automatic basis immediately.

## SYSTEM REQUIREMENTS AND QUALITY CONTROL

Initial program training is offered once the lender applies to VA. Ongoing training may also be provided by VA if audit findings suggest the need.

VA does not have a proprietary automatic underwriting system (AUS). Instead, lenders may use any AUS approved by VA, such as Fannie Mae’s Desktop Underwriter® or Freddie Mac’s Loan Prospector®. VA extensively reviews the quality of the loans that bear their guarantee and will contact lenders with specific corrective actions if their loans fail to meet VA standards.

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<sup>3</sup> Note that spouses can co-sign on the loan and be included on the deed. In the event that a spouse does not want to co-sign on the loan, the veteran borrower and the non-borrower spouse must sign either the mortgage note or the mortgage deed. VA clarified this in Circular 26-16-01, [http://www.benefits.va.gov/HOMELOANS/resources\\_circulars.asp](http://www.benefits.va.gov/HOMELOANS/resources_circulars.asp)

## RESOURCES

**VA Guaranteed Loan Processing Manual:** Rules and regulations covering all aspects of the VA Guaranteed Loan program.

[http://www.benefits.va.gov/WARMS/M26\\_1.asp](http://www.benefits.va.gov/WARMS/M26_1.asp)

**VA Lenders Handbook:** VA's guide for lenders that make VA guaranteed home loans.

[http://www.benefits.va.gov/WARMS/pam26\\_7.asp](http://www.benefits.va.gov/WARMS/pam26_7.asp)

**VA list of regional offices:** Contact information for all VA regional offices.

[http://www.benefits.va.gov/HOMELOANS/contact\\_rlc\\_info.asp](http://www.benefits.va.gov/HOMELOANS/contact_rlc_info.asp)

**National Center on Veterans Analysis and Statistics:** Information on the population distribution of veterans and home loan benefit usage.

<http://www.va.gov/vetdata/Maps.asp>

**County-level loan limits**

[http://www.benefits.va.gov/homeloans/purchaseco\\_loan\\_limits.asp](http://www.benefits.va.gov/homeloans/purchaseco_loan_limits.asp)

**Specific eligibility for adapted housing grants**

<http://www.benefits.va.gov/HOMELOANS/adaptedhousing.asp>

### Using VA's Home Purchase Loan Program

*FDIC staff talked with community bankers about their participation in the U.S. Department of Veterans Affairs' Home Purchase Loan Program. The following are excerpts from these discussions.*

The VA's Home Purchase Loan Program helps service members, veterans, and surviving spouses by providing a mortgage guarantee for loans that can have a loan-to-value (LTV) ratio as high as 100 percent.

#### Working with VA

Some markets have a concentration of veterans, making the VA program particularly attractive for banks in those areas. According to one lender, "Due to our institution's footprint and the state within which we operate, we have a large population of military families that we serve." He said that his bank offers the Home Purchase Loan Program as well as VA's Interest Rate Reduction Refinance Loan, which allows veterans refinancing to reduce the interest rate on VA-guaranteed loans.

This banker pointed out that it takes approximately six months to set up the programs due to the review process (certification) required by VA and the educational and training requirements necessary for the sales and operations staff. As with any program, training and communication is occasionally a challenge, one banker noted.

#### Selling loans to investor partners

One representative stated that he considers his bank a mini-correspondent for VA loans. It originates and processes the loans in its name, sends the loans to the investor to underwrite, and then closes the loans in its own name. The banker said that there are three elements to choosing a good investor partner: pricing, service, and overlays. The service component, primarily underwriting turnaround times, "is where we have to struggle as a small player."

Another banker said that his bank is a correspondent originator for VA loans. He went on to say that as a correspondent, often times, the borrowers who would qualify for VA would also qualify for one of the bank's other programs. However, the flexibility of the program has, in certain instances, aided borrowers who otherwise would not have qualified. He added that VA loans do not make up a large portion of the bank's originations. "Last year we originated about \$2.5 million of these loans; however, this year we are projected to increase this amount, and in our experience about 80 percent of these loans go to first-time homebuyers."

#### Benefits of Using VA with Other Veteran Subsidy Programs

One bank representative said that his bank looks for ways to provide the optimal amount of mortgage-related assistance for the veterans they serve by taking advantage of additional veteran housing loan subsidy programs offered by the Federal Home Loan Bank (FHLBank) of Atlanta. These FHLBank Set-Aside Funds programs offer veterans up to \$15,000 toward down payment, closing costs, principal reduction, or rehabilitation assistance for the purchase or purchase/rehabilitation of an existing unit, typically structured as a forgivable five-year second mortgage with no interest or payments.

The FHLBank veterans' programs can be used with the VA home loan guarantee program or other conventional or portfolio products. "Programs like the FHLBank Set-Aside Funds programs are a perfect match for small community banks. The \$1 million cap per bank may be too small for larger banks, but works for us."

Another banker said that his bank has been able to utilize the Texas Veterans Land Board (VLB) to help veterans finance land, home loans, and home improvement loans for eligible Texas veterans and active military members. The VLB was established in 1946 to make land available to veterans returning from World War II and has been active ever since.

### **Marketing the Home Loan Guarantee Program**

To reach as many veterans as possible, one banker is planning a Veteran's Housing and Benefits Expo. The bank will convene other businesses, government sponsors, and veterans in one venue so veterans can learn about housing finance options available to them and about other government benefits and local business discounts for veterans. The banker explained that the Expo is the bank's way of promoting its business while also helping veterans in the area. He said, "We're a little bank with a little budget, but this is what we can do to make a difference in the community that's also going to help us grow this department at a faster than normal pace."

Another banker said that while his bank does not directly market VA loans at this time, its real estate partners, website, and locations throughout the state provide enough marketing to adequately spread the word about their VA program offerings.

### **Advice for other banks considering the VA Loan Guarantee Program**

When asked about advice for other banks, one of the bankers said "I would recommend doing it. But be forewarned, there is a learning curve! (I can't lie about that.) Many of the documents and requirements are foreign at first and there are additional complexities and costs in finding the right staff to properly originate these loans. Eventually, however, this becomes less and less daunting. The key is training."

## Home Purchase Loan Program

Offers zero down payment guaranteed loans to service members, veterans, and surviving spouses

### BACKGROUND AND PURPOSE

The U.S. Department of Veterans Affairs (VA) helps service members, veterans, and eligible surviving spouses become homeowners by providing a home loan guaranty benefit. VA loans are provided by private lenders, such as banks and mortgage companies. Borrower eligibility for VA homeownership programs is determined by meeting minimum standards for length of service, which is confirmed by VA with a Certificate of Eligibility. Each veteran has a guaranty entitlement, which is a minimum of \$36,000 and a maximum of 25 percent of the county loan limit. The guaranty is the amount VA will pay the lender in the event of a foreclosure. The guaranty effectively takes the loan-to-value (LTV) ratio down to 75 percent. The VA Home Purchase Loan program has made mortgage credit available to many veterans who otherwise would not be able to obtain a loan.

### BORROWER CRITERIA

**Loan limits:** VA loan limits vary by county and are currently the same as those set by the Federal Housing Finance Agency (FHFA) for Fannie Mae and Freddie Mac (conforming loan limits). Although VA does not set a cap on how much a veteran can borrow to finance a home purchase, the department will only guarantee 25 percent of the VA loan limit. Therefore, lenders may require veterans to make a down payment on loan amounts that exceed the limits.

**Income limits:** This program has no income limits.

**Credit:** VA does not require a minimum credit score for a VA loan, but lenders may set their own requirements.

**First-time homebuyers:** First-time users of their VA eligibility get a lower funding fee. Generally, all veterans using the VA Home Purchase Loan guaranty pay a funding fee. The funding fee is a percentage of the loan

PROGRAM NAME	Home Purchase Loan Program
AGENCY	U.S. Department of Veterans Affairs
EXPIRATION DATE	Not Applicable
APPLICATIONS	<a href="http://benefits.va.gov/warms/pam26_7.asp">http://benefits.va.gov/warms/pam26_7.asp</a>
WEB LINK	<a href="http://www.benefits.va.gov/homeloans/index.asp">http://www.benefits.va.gov/homeloans/index.asp</a>
CONTACT INFORMATION	Lenders interested in participating should contact their local VA office, which can be found at <a href="http://www.benefits.va.gov/HOMELOANS/contact_rlc_email.asp">http://www.benefits.va.gov/HOMELOANS/contact_rlc_email.asp</a>
APPLICATION PERIOD	Continuous
GEOGRAPHIC SCOPE	National



amount that varies based on the type of loan, military category, first-time loan user status, and existence of a down payment.

**Occupancy and ownership of other properties:** A borrower<sup>4</sup> may only use VA financing for one property at a time, called “entitlement.” The borrower must plan to occupy the property as a primary residence.

**Special populations:** To obtain a VA loan, the borrower must be a service member or veteran with a Certificate of Eligibility signifying that he or she meets the service requirements. During wartime, 90 days of active service is the minimum amount of service to be eligible; during peacetime, the requirement is 180 days. Military spouses are also eligible under certain criteria when the service member is unable to be the borrower. Officers of certain nonmilitary government agencies and people who served in World War II in certain non-U.S. armed services capacities are also eligible.

**Special assistance for persons with disabilities:** The VA provides Housing Grants for Disabled Veterans to service members and veterans with certain permanent and total service-connected disabilities to help purchase or construct an adapted home, or modify an existing home to accommodate a disability. It also offers a Special Adapted Housing Grant that is designed to facilitate independent, barrier-free living for veterans with severely impaired mobility, and a Special Housing Adaptation Grant for adapting the home to non-mobility related disabilities.

**Native Americans:** There is no special benefit for Native American veterans seeking to purchase a home not located on tribal lands.

**Tribal Land Loans:** Note that VA loans on tribal land are underwritten directly by VA. By statute, before VA may make a loan to any Native American veteran, the veteran’s tribal or other sovereign governing body must enter into a Memorandum of Understanding (MOU) with VA. Native American veterans who are eligible for VA home loan benefits and whose sovereign governments have signed an MOU, may then apply directly to VA for a 30-year fixed rate loan to purchase, build, or improve a home located on federal trust land. They may also refinance a direct loan already made under this program to lower their interest rate.

**Property type:** The property type may be a house, a condominium unit in a VA-approved project, or a manufactured home and/or lot. Up to four residential units and one business unit (which cannot be more than 25 percent of the square footage of the home) is allowed. VA financing may also function as construction financing to build a home, simultaneously purchase and improve a home, or make energy efficiency improvements of up to \$6,000.

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<sup>4</sup> Note that spouses can co-sign on the loan and be included on the deed. In the event that a spouse does not want to co-sign on the loan, the veteran borrower and the non-borrower spouse must sign either the mortgage note or the mortgage deed. VA clarified this in Circular 26-16-01, [http://www.benefits.va.gov/HOMELOANS/resources\\_circulars.asp](http://www.benefits.va.gov/HOMELOANS/resources_circulars.asp)

## POTENTIAL BENEFITS

VA loans offer competitive pricing and terms.

Community banks, as supervised institutions, receive automatic authority to originate and close loans with the VA guarantee, making VA loans a relatively easy type of mortgage to begin offering.

## POTENTIAL CHALLENGES

Despite the ease of becoming a VA-authorized lender, community banks may need to acquire or develop new expertise and infrastructure in order to participate.

Lenders retain some risk since they are responsible for any loss over 25 percent.

## LOAN CRITERIA

**Loan limits:** Each veteran has a guaranty entitlement, which is a minimum of \$36,000 and a maximum of 25 percent of the county loan limit. The guaranty effectively takes the LTV ratio down to 75 percent. VA has set its loan limits to be the same as the loan limits for Fannie Mae and Freddie Mac single-unit loans. Borrowers may combine their entitlement with a down payment to purchase a property that is over the county loan limit, but such loans would be more limited in their secondary market options.

**Loan-to-value limits:** A loan-to-value (LTV) ratio of up to 100 percent is allowed. Closing costs may not be financed into the loan. However, it is possible to finance the funding fee and up to \$6,000 in energy-efficiency improvements into the loan, in which case the LTV may go over 100 percent. From the lender's perspective, the veteran's entitlement effectively reduces the LTV ratio to 75 percent or less.

**Adjustable-rate mortgages:** Lenders may make adjustable-rate mortgages with VA guarantees. For traditional ARMs with annual interest rate adjustments or hybrid ARMs with an initial fixed-rate period of under five years, annual interest rate adjustments are limited to plus or minus 1 percentage point, with a maximum of 5 percentage points over the life of the loan. These loans must be underwritten at 1 percentage point above the initial rate. If the initial contract interest rate of a hybrid ARM remains fixed for five years or more, the initial adjustment is limited to a maximum increase or decrease of 2 percentage points, and the interest rate increase over the life of the loan is limited to 6 percentage points.

**Down payment sources:** Down payments are not required. A discounted funding fee is provided with down payments of 5 percent or more (discounted to 1.5 percent) and 10 percent or more (discounted to 1.25 percent). Lenders may require a down payment if necessary to meet secondary market requirements (such as those imposed by Ginnie Mae); generally, the VA guarantee plus down payment must be at least 25 percent of the loan amount.

**Homeownership counseling:** Homeownership counseling is not required.

**Mortgage insurance:** Mortgage insurance is not required.

**Debt-to-income ratio:** The maximum debt-to-income ratio allowed is 41 percent. However, applicants whose DTI exceed 41 percent can be granted an exception if the borrower qualifies based on residual income. If student loan repayments are scheduled to begin within 12 months of the date of VA loan closing, lenders should consider the anticipated monthly obligation in the loan analysis. If the borrower is able to provide evidence that the debt may be deferred for a period outside that timeframe, the debt need not be considered in the analysis.

**Residual income:** The VA wants to make sure that veterans have enough money for regular household and family needs after making their housing payment, so they measure a prospective borrower's residual income as well as debt-to-income ratio. Residual income is the amount of net income remaining (after deduction of debts and obligations and monthly shelter expenses) to cover family living expenses such as food, health care, clothing, and gasoline. Residual income does not automatically trigger acceptance or rejection of a loan, but it is considered in conjunction with other credit factors. If the borrower's DTI is more than 41 percent, he or she must exceed the regional residual income requirement by at least 20 percent. Lenders may reduce the residual income requirement by 5 percent for active-duty service members. The residual income threshold varies depending on family size and geographic region. See the VA's underwriting guide, Chapter 4, "Credit Underwriting," for the latest residual income limits.

**Temporary interest rate buy downs:** Interest rate and points are negotiated between the lender and borrower; temporary interest rate buy downs are allowed.

**Refinance:** Cash-out refinance is allowed. No cash-out refinance is allowed through the VA's Interest Rate Reduction Refinance Loan program.

**Seller concessions:** VA limits seller concessions to 4 percent of the loan. Examples are payment of pre-paid closing costs, VA funding fee, payoff of credit balances or judgments for the veteran, and funds for temporary buy downs. Payment of discount points is not subject to the 4 percent limit.

**Funding fee:** Generally, all veterans using the VA Home Loan Guaranty benefit must pay a funding fee. The funding fee is a percentage of the loan amount that varies from 1.25 percent to 3.3 percent based on the type of loan, military category, first-time loan user status, and existence of a down payment. VA funding fees may be financed or paid in cash at closing. Veterans with a service-connected disability are exempt from the funding fee.

**Lender fees:** The VA limits the fees lenders can charge borrowers. The veteran can pay a maximum of reasonable and customary amounts for typical closing costs designated by VA, plus a 1 percent flat charge by the lender, plus reasonable discount points. The seller, lender, or any other party may pay any of these fees on behalf of the borrower; however, the VA does not allow excessive seller concessions that place veterans in loans they would not otherwise qualify for because this increases the risk of default.

**Appraisals:** Prospective borrowers must use an appraiser assigned by VA.

**Loss mitigation:** VA has favorable terms for veterans who lose their homes to foreclosure, short sale, or deed-in-lieu of foreclosure. In the event of foreclosure, some of the veteran's entitlement will likely stay tied to the foreclosed property. Under most circumstances, borrowers may be able to use the remainder of their entitlement to qualify for a new mortgage. Waiting periods after foreclosure are shorter with VA than with conventional financing.

## Potential Benefits

- VA loans offer competitive pricing and terms.
- Community banks, as supervised institutions, receive automatic authority to originate and close loans with the VA guarantee, making VA loans a relatively easy type of mortgage to begin offering.
- The VA Home Purchase Loan Program may allow community banks to expand their customer base among veterans in their communities.
- Loans originated through VA may be favorably considered during the bank's Community Reinvestment Act evaluation, depending on the geography and income of the participating borrowers.

## Potential Challenges

- Despite the ease of becoming a VA-authorized lender, community banks may need to acquire or develop new expertise and infrastructure in order to participate.
- Lenders retain some risk since they are responsible for any loss over 25 percent.

## RESOURCES

### Lender Handbook

[http://benefits.va.gov/warms/pam26\\_7.asp](http://benefits.va.gov/warms/pam26_7.asp)

### Local VA offices

[http://www.benefits.va.gov/HOMELOANS/contact\\_rlc\\_email.asp](http://www.benefits.va.gov/HOMELOANS/contact_rlc_email.asp)

### Specific eligibility for adapted housing grants

<http://www.benefits.va.gov/homeloans/sahat.asp>

### Specific requirements for a Certificate of Eligibility

[http://www.benefits.va.gov/homeloans/purchaseco\\_certificate.asp](http://www.benefits.va.gov/homeloans/purchaseco_certificate.asp)

### Current funding fees

[http://www.benefits.va.gov/homeloans/documents/docs/funding\\_fee\\_table.pdf](http://www.benefits.va.gov/homeloans/documents/docs/funding_fee_table.pdf)

### Complete list of allowed fees and charges

<http://benefits.va.gov/WARMS/docs/admin26/handbook/ChapterLendersHanbookChapter8.pdf>

### County-level loan limits

[http://www.benefits.va.gov/homeloans/purchaseco\\_loan\\_limits.asp](http://www.benefits.va.gov/homeloans/purchaseco_loan_limits.asp)

### Residual income limits (page 4-25)

[http://benefits.va.gov/warms/pam26\\_7.asp](http://benefits.va.gov/warms/pam26_7.asp)

### FHFA loan limits

<http://www.fhfa.gov/DataTools/Downloads/Pages/Conforming-Loan-Limits.aspx>

## Interest Rate Reduction Refinance Loan

### Refinancing to reduce the interest rate on VA-guaranteed loans

#### BACKGROUND AND PURPOSE

The U.S. Department of Veterans Affairs' (VA) Interest Rate Reduction Refinance Loan (IRRRL) lowers the interest rate by refinancing an existing VA home loan. By obtaining a lower interest rate, the monthly mortgage payment should decrease. Eligible borrowers can also refinance an adjustable-rate mortgage (ARM) into a fixed-rate mortgage. No additional charge is made against the veteran's entitlement because of a loan for the purpose of an interest rate reduction. The Veterans' Disability Compensation and Housing Benefits Amendments of 1980 introduced the IRRRL program to assist veterans who wished to take advantage of low interest rates to reduce their monthly payments.

#### BORROWER CRITERIA

**Income limits:** There are no income limits on this program.

**Credit:** No credit review is performed.

**First-time homebuyers:** An IRRRL can only be made to refinance a property on which the borrower has already used his or her VA loan eligibility so it is not of use to first-time homebuyers. It must be a VA-to-VA refinance, and it will reuse the original entitlement.

**Occupancy and ownership of other properties:** No loan other than the existing VA loan may be paid from the proceeds of an IRRRL. The occupancy requirement for an IRRRL differs from other VA loans. For an IRRRL, the borrower need only certify that he or she previously occupied the home. Single-family homes, condominiums, and manufactured homes are all eligible.

**Special populations:** This program may only be used by veterans and, in some cases, their spouses. A new Certificate of Eligibility is not required. Borrowers are not required to show their Certificate of Eligibility to show the prior use of entitlement; an email confirmation procedure is available to lenders in lieu of a Certificate of Eligibility.

PROGRAM NAME	Interest Rate Reduction Refinance Loan Program (IRRRL)
AGENCY	U.S. Department of Veterans Affairs
EXPIRATION DATE	Not Applicable
APPLICATIONS	<a href="http://www.benefits.va.gov/homeloans/lenders.asp">http://www.benefits.va.gov/homeloans/lenders.asp</a>
WEB LINK	<a href="http://www.benefits.va.gov/homeloans/irrl.asp">http://www.benefits.va.gov/homeloans/irrl.asp</a>
CONTACT INFORMATION	Lenders interested in participating should contact their local VA office, which can be found at <a href="http://www.benefits.va.gov/HOMELOANS/contact_rlc_email.asp">http://www.benefits.va.gov/HOMELOANS/contact_rlc_email.asp</a>
APPLICATION PERIOD	Continuous
GEOGRAPHIC SCOPE	National

**Special assistance for persons with disabilities:** Veterans with service-related disabilities are generally exempt from the funding fee (0.5 percent of the loan's value, or 1 percent for an unaffixed manufactured home).

## LOAN CRITERIA

**Loan limits:** The refinanced loan cannot exceed the existing VA loan plus any financed funding fee.

**Loan-to-value limits:** There are no LTV limits set by VA. The new loan amount may be more than the limits established by the secondary market. It is the lender's responsibility to ensure it has a marketable loan.

**Adjustable-rate mortgages:** Existing VA ARM loans may be refinanced into fixed-rate loans, but loans cannot be refinanced into ARMs under any circumstances.

**Down payment sources:** No down payment is required; however, an IRRRL may be done with "no money out of pocket" by including all costs in the new loan.

**Homeownership counseling:** Homeownership counseling is not required.

**Mortgage insurance:** Mortgage insurance is not required.

**Debt-to-income ratio:** No credit review is performed.

**Temporary interest rate buy downs:** Not allowed since the purpose is generally to lower the interest rate.

**Refinance:** The borrower may not receive any cash from the loan proceeds for an IRRRL unless it is for the purpose of making energy efficiency improvements.

**Interest rates and loan terms:** Terms are set by the lender.

**Funding fee:** The funding fee for an IRRRL is 0.5 percent of the loan's value, or 1 percent for an unaffixed manufactured home. Funding fees may be financed or paid in cash.

## POTENTIAL BENEFITS

Lenders can offer existing customers a product to lower their payments, which may generate further business for the bank.

VA loans offer competitive pricing and terms.

## POTENTIAL CHALLENGES

Despite the ease of becoming a VA-authorized lender, community banks may need to acquire or develop new expertise and infrastructure in order to participate.

A limited pool of borrowers is eligible for this program due to the military service requirement.

## Potential Benefits

- Lenders can offer existing customers a product to lower their payments, which may generate further business for the bank.
- VA loans offer competitive pricing and terms.
- Loans originated with VA may be positively considered under the Community Reinvestment Act, depending on the geography or incomes of the participating borrowers.
- Community banks, as supervised institutions, receive automatic authority to originate and close loans with the VA guarantee, making VA loans a relatively easy type of mortgage business to begin offering.

## Potential Challenges

- Despite the ease of becoming a VA-authorized lender, community banks may need to acquire or develop new expertise and infrastructure in order to participate.
- A limited pool of borrowers is eligible for this program due to the military service requirement.
- Lenders retain risk since they are responsible for any loss over 25 percent.
- IRRRL applications where a borrower is more than 30 days late on a mortgage payment must be approved directly by VA.

## SIMILAR PROGRAMS

- FHA Streamline Refinance
- Fannie Mae Refi Plus™/Home Affordable Refinance Program (HARP)
- Freddie Mac Relief Refinance<sup>SM</sup>/Home Affordable Refinance Program (HARP)

## RESOURCES

### General information

<http://www.benefits.va.gov/homeloans/irrri.asp>

### General information on VA home lending programs

<http://www.benefits.va.gov/homeloans/lenders.asp>

### Interest Rate Reduction Refinance Loan Worksheet (VA Form 26-8923)

<http://www.vba.va.gov/pubs/forms/VBA-26-8923-ARE.pdf>

### Veteran/Service member's supplemental application for assistance in acquiring specially adapted housing (VA Form 26-4555c)

<http://www.vba.va.gov/pubs/forms/VBA-26-4555c-ARE.pdf>

### Verification of VA benefits form (VA Form 26-8937)

<http://www.vba.va.gov/pubs/forms/VBA-26-8937-ARE.pdf>



## U.S. Department of the Treasury Community Development Financial Institutions Fund

*We have included the most recent information available at the date of publication. At the end of each section, we include a list of resources with web links where you can find updates, as well as information about additional programs and other helpful information related to the subject.*

### OVERVIEW

The U.S. Department of the Treasury's Community Development Financial Institutions Fund (CDFI Fund) helps promote access to capital and local economic growth in urban and rural low-income communities across the nation through monetary awards and the allocation of tax credits. Financial institutions certified by the CDFI Fund are eligible to apply for monetary support and training to build organization capacity. The CDFI Fund's model is competitive and each of its programs provides CDFIs with the flexibility to determine the best use of limited federal resources in their community.

To take advantage of many CDFI Fund programs – but not the Bank Enterprise Awards or the Capital Magnet Fund – an entity must be certified as a Community Development Financial Institution (CDFI). CDFIs are specialized financial institutions that provide financial products and services to populations and businesses located in underserved markets. These institutions have community development missions and a reputation for lending responsibly in low-income communities. CDFIs include banks and bank holding companies, as well as credit unions, loan funds, and venture capital funds. As of June 2016, there were 122 CDFI certified banks across the United States, which is 8 percent of all certified CDFIs. The CDFI Fund through its monetary awards provides funding and technical assistance to CDFIs.

### This Guide covers the following CDFI Fund programs:

**Bank Enterprise Award Program:** Provides monetary awards to FDIC-insured banks for increasing their investments in CDFIs and for expanding their lending, investment, and service activities in economically distressed communities.

**CDFI Program:** Financial Assistance (FA) and Technical Assistance (TA) awards for certified and emerging CDFIs to support affordable financial services and products, including single-family mortgage lending, in distressed communities. Technical Assistance awards are for start-up or existing CDFIs and are used to build capacity to underwrite loans and provide other services to its target market through the acquisition of goods and services such as consulting services, technology purchases, and staff or board training.

**Capital Magnet Fund:** Competitive grant program to CDFIs and nonprofit housing developers to support financing tools such as loan loss reserves or loan guarantees, to attract private capital for affordable housing, and community and economic development associated with affordable housing.

## BECOMING A CERTIFIED CDFI

CDFI banks are federally insured and regulated depository institutions with a primary mission of community development. What distinguishes CDFI banks from other financial institutions is their community development mission and the requirement that at least 60 percent of their financing activities be targeted to one or more low- and moderate-income (LMI) populations or underserved communities. The requirement of being accountable to their target market(s) is usually fulfilled by community representation on boards of directors or advisory boards.

Approximately 50 percent of CDFI banks are Minority Depository Institutions (MDIs). The FDIC publishes quarterly a list of MDI banks at [www.fdic.gov/mdi](http://www.fdic.gov/mdi). The list includes FDIC-supervised banks that meet either of the following two definitions: (1) federally insured depository institutions in which 51 percent or more of the voting stock is owned by minority individuals; or (2) federally insured depository institutions in which the majority of the board of directors is minority and the community the institution serves is predominantly minority. The FDIC's list of MDI banks also includes FDIC-insured minority depository institutions that are supervised by the Office of the Comptroller of the Currency (OCC) and the Federal Reserve Board. Each of those agencies has its own definition of MDIs. FDIC publishes the names of MDIs supervised by the OCC and Federal Reserve that are consistent with the MDI categories defined by Section 308 of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989. Participating in the MDI program is voluntary, and some institutions meeting the above definitions choose not to be included on the list.

CDFI certification is formal acknowledgement from the CDFI Fund that a financial institution meets certain community development finance measures. To become certified, a financial institution must apply to the CDFI Fund and meet the following criteria:

- be a legal entity at the time of certification application;
- have a primary mission of promoting community development;
- be a financing entity;
- primarily serve one or more target markets by designating at least 60 percent of financing activities to one or more low- and moderate-income or underserved communities;
- provide development services in conjunction with its financing activities;
- maintain accountability to its defined target market; and
- be a nongovernment entity and not be under control of any government entity (Tribal governments excluded).

## PROGRAMS IN THIS SECTION:

**Bank Enterprise Award Program:** Provides monetary awards to FDIC-insured banks for increasing their investments in CDFIs and for expanding their lending, investment, and service activities in economically distressed communities.

**CDFI Program:** Financial Assistance (FA) and Technical Assistance (TA) awards for certified and emerging CDFIs to support affordable financial services and products, including single-family mortgage lending, in distressed communities. Technical Assistance awards are for start-up or existing CDFIs and are used to build capacity to underwrite loans and provide other services to its target market through the acquisition of goods and services such as consulting services, technology purchases, and staff or board training.

**Capital Magnet Fund:** Competitive grant program to CDFIs and nonprofit housing developers to support financing tools such as loan loss reserves or loan guarantees, to attract private capital for affordable housing, and community and economic development associated with affordable housing.

## CDFI PARTNERSHIPS

The Community Reinvestment Act (CRA) encourages commercial banks and savings associations to help meet the credit needs of their communities, including LMI neighborhoods, in a manner consistent with safe and sound banking practices. Three federal regulatory agencies—the FDIC, the OCC, and the Federal Reserve Board—conduct regular CRA examinations and develop performance evaluations based on performance tests that vary by institution size and type. However, regardless of the size or type of the depository institution, loans to and investments in qualifying CDFIs may be useful in helping community banks meet their CRA obligations.

Because CDFIs certified by the CDFI Fund are required primarily to serve a community development purpose, the interagency questions and answers regarding community reinvestment explicitly recognize loans to and investments in CDFIs as examples of community development loans and qualified investments.<sup>5</sup>

- CDFI financing support from banks can be classified in three forms: equity investments, which represent capital invested in CDFIs; debt, which represents funds loaned to CDFIs; and deposits, which are funds placed in CDFI depository institutions, typically earning interest and insured by a federal governmental agency.
- For consideration under the CRA, a bank's investment activities must serve community development purposes and be consistent with safe and sound banking requirements. Also, for most community banks and large retail institutions, the CDFI's purpose and activities should be in their assessment area or the statewide or regional area that includes the assessment area.

## TRAINING RESOURCES

The CDFI Fund launched the Capacity Building Initiative (CBI) in 2014 to expand technical assistance and training opportunities for CDFIs. Industry-wide training targets key issues affecting CDFIs and the communities they serve, including affordable housing and business lending, portfolio management, risk assessment, foreclosure prevention, training in CDFI business processes, and assistance with liquidity and capitalization challenges. CBI also offers direct technical assistance and individualized capacity-building plans and focuses on extending CDFI coverage to underserved communities, especially in rural areas.

As part of the CBI, the CDFI Fund provides Resource Banks that contain the resources developed for all past training series, including training materials, expert documents, archived webinars, and links to relevant outside information.

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<sup>5</sup> Office of the Comptroller of the Currency, Treasury; Federal Reserve System; and Federal Deposit Insurance Corporation, "Community Reinvestment Act; Interagency Questions and Answers Regarding Community Reinvestment," 75 Federal Register 11648, 11652 (March 11, 2010). Available at <http://www.ffiec.gov/cra/pdf/2010-4903.pdf>.

## RESOURCES

### CDFI Fund general information

<http://www.cdfifund.gov>

### FDIC's Strategies for Community Banks to Develop Partnerships with Community Development Financial Institutions

[https://www.fdic.gov/consumers/community/CDFI/CDFIs\\_EntireReport.pdf](https://www.fdic.gov/consumers/community/CDFI/CDFIs_EntireReport.pdf)

### Bank Enterprise Award Program information

[https://www.cdfifund.gov/programs-training/Programs/bank\\_enterprise\\_award/Pages/default.aspx](https://www.cdfifund.gov/programs-training/Programs/bank_enterprise_award/Pages/default.aspx)

### CDFI Program information

<https://www.cdfifund.gov/programs-training/Programs/cdfi-program/Pages/default.aspx>

### CDFI certification

<https://www.cdfifund.gov/programs-training/certification/cdfi/Pages/default.aspx>

### Capital Magnet Fund

<https://www.cdfifund.gov/programs-training/Programs/cmf/Pages/default.aspx>

### Capacity Building Initiative

<https://www.cdfifund.gov/programs-training/training-ta/Pages/default.aspx>

### Minority Depository Institutions

<https://www.fdic.gov/regulations/resources/minority/index.html>

## Bank Enterprise Awards

### Financial incentives for banks to expand activities in economically distressed areas

#### BACKGROUND AND PURPOSE

The Bank Enterprise Awards (BEA) Program was created in 1994 to support FDIC-insured financial institutions across the country that are committed to financing community and economic development activities, such as affordable home mortgages and other affordable loans, deposits, and financial services including investments in community development financial institution (CDFI) partners.

The BEA Program encourages community development activities of insured depository institutions by providing financial incentives to expand investments in CDFIs and to increase their own lending, investment, and service activities within economically distressed communities. Providing monetary awards for increasing community development activities leverages the CDFI Fund's dollars and puts more capital to work in distressed communities.

#### ELIGIBILITY AND AWARD CALCULATION

The BEA Program provides formula-based grants to applicants for increasing qualified activities between a baseline period and an assessment period. The assessment period is the calendar year immediately before the current year, and the baseline period is the calendar year before that. All depository institutions insured by the FDIC are eligible to apply for a BEA Program award. Banks that receive awards must then reinvest those funds into distressed communities. The ultimate consumers of the activities must be low to moderate income.

Institutions that are certified CDFIs receive priority for awards if there is insufficient funding. Small and intermediate institutions<sup>6</sup> also receive priority. Institutions must estimate the size of their own awards as part of the application, but the CDFI Fund makes the final determination of eligible activities.

PROGRAM NAME	Bank Enterprise Awards
AGENCY	U.S. Department of the Treasury - CDFI Fund
EXPIRATION DATE	Dependent on congressional appropriations
APPLICATIONS	Available at <a href="http://www.cdfifund.gov/bea">http://www.cdfifund.gov/bea</a>
WEB LINK	<a href="http://www.cdfifund.gov/bea">http://www.cdfifund.gov/bea</a>
CONTACT INFORMATION	<a href="mailto:cdfihelp@cfdi.treas.gov">cdfihelp@cfdi.treas.gov</a>
APPLICATION PERIOD	Applications are typically open for a 45-day period every spring
GEOGRAPHIC SCOPE	Economically distressed communities

Awards are based on activities within three categories, in descending order of priority:

**CDFI-related activities:** Equity investments, equity-like loans, grants, loans, deposits/shares, and technical assistance to qualified CDFI partners.

**Distressed community financing activities:** Affordable home mortgage loans, affordable housing development loans, small business loans, home improvement loans, education loans, commercial real estate loans, and small-dollar consumer loans.

**Service activities:** Financial products and services, such as checking accounts, savings accounts, check cashing, financial counseling, financial education, individual development accounts, small-dollar consumer loans, or youth savings accounts provided to residents of distressed communities.

### Potential Benefits

- BEA awards may help banks offset some of the cost of BEA-qualified activities and direct administrative expenses associated with them by providing awards for activities already performed.
- For banks that provide equity investments to CDFIs, or are CDFIs themselves, they are likely to receive the largest awards relative to the size of their investments.
- BEA-qualified activities are eligible for Community Reinvestment Act consideration.

### Potential Challenges

- Only increases in qualifying activities not directly funded by previous BEA program awards or other federal funds count toward the BEA award amount calculation.
- Only banks that are already participating in qualifying activities will receive awards because awards are based on past performance.

### RESOURCES

**Distressed Community Mapping System (CIMS3)**

<https://www.cdfifund.gov/Pages/mapping-system.aspx>

**Bank Enterprise Award Program information**

[https://www.cdfifund.gov/programs-training/Programs/bank\\_enterprise\\_award/Pages/default.aspx](https://www.cdfifund.gov/programs-training/Programs/bank_enterprise_award/Pages/default.aspx)

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<sup>6</sup> Small banks are defined as having assets of less than \$300 million; intermediate banks have assets of at least \$300 million but less than \$1.202 billion and large banks have assets of \$1.202 billion or greater.

## POTENTIAL BENEFITS

BEA awards may help banks offset some of the cost of BEA-qualified activities and direct administrative expenses associated with them by providing awards for activities already performed.

For banks that provide equity investments to CDFIs, or are CDFIs themselves, they are likely to receive the largest awards relative to the size of their investments.

## POTENTIAL CHALLENGES

Only increases in qualifying activities not directly funded by previous BEA program awards or other federal funds count toward the BEA award amount calculation.

Only banks that are already participating in qualifying activities will receive awards because awards are based on past performance, not planned or future performance.

## CDFI Program

Competitive monetary awards to support affordable financial services and products in distressed communities, and technical assistance for CDFIs and emerging CDFIs

### BACKGROUND AND PURPOSE

The U.S. Department of the Treasury's Community Development Financial Institutions Fund (CDFI Fund) makes competitive awards of up to \$2 million to certified community development financial institutions (CDFIs) under the Financial Assistance (FA) component of the CDFI Program and up to \$100,000 under the Technical Assistance (TA) component.

Depending on the CDFI institution type, a CDFI may use the award for financing capital, loan loss reserves, capital reserves, financial services, or development services. These awards can be used for a variety of affordable housing options.

FA awards can be in the form of loans, grants, equity investments, and deposits and credit union shares.

The form of the FA award is based on the form of the matching funds that the applicant includes in its application, unless Congress waives the matching funds requirement.

TA awards are for start-up or existing CDFIs and are used to build capacity to underwrite loans and provide other services to the target market through the acquisition of goods and services such as consulting services, technology purchases, and staff or board training.

### ELIGIBILITY CRITERIA

To be eligible for an FA award, a CDFI must be certified by the CDFI Fund before it applies for the award. Prospective applicants that are not yet certified must

PROGRAM NAME	CDFI Fund Program
AGENCY	U.S. Department of the Treasury - CDFI Fund
EXPIRATION DATE	Dependent on congressional appropriations
APPLICATIONS	Application is available at <a href="https://www.cdfifund.gov/programs-training/Programs/cdfi-program/Pages/apply-step.aspx#step22">https://www.cdfifund.gov/programs-training/Programs/cdfi-program/Pages/apply-step.aspx#step22</a>
WEB LINK	<a href="https://www.cdfifund.gov/programs-training/Programs/cdfi-program/Pages/default.aspx">https://www.cdfifund.gov/programs-training/Programs/cdfi-program/Pages/default.aspx</a>
CONTACT INFORMATION	<a href="mailto:cdfihelp@cdfi.treas.gov">cdfihelp@cdfi.treas.gov</a>
APPLICATION PERIOD	There is typically an annual 45-day application period in the fall, with awards announced in summer of the following year.
GEOGRAPHIC SCOPE	National



submit a separate certification application to be considered for FA during a funding round. By statute, awardees must match the monetary award dollar for dollar. The form of the FA award is based on the form of the matching funds, which must be from non-federal sources and not used as matching funds for any other federal award.

Both certified and noncertified CDFIs are eligible to apply for technical assistance awards. However, noncertified organizations must be able to become certified within two years after receiving a TA award. There is no matching requirement for a TA award.

Depending on the Notice of Funding Available (NOFA), the CDFI Fund may have a special set-aside for applications from Small and/or Emerging CDFIs. To be an eligible Small and/or Emerging CDFI Assistance (SECA) applicant, an applicant must be a certified or certifiable CDFI, request \$700,000 or less in FA funds, and either not exceed the applicable maximum asset threshold of \$250 million or have begun operations generally no earlier than three years prior.

## COMMUNITY BANK CRITERIA

Depending on the NOFA, to be eligible for an award, an insured depository institution applicant must have a CAMELS rating by its federal regulator of at least 4. Organizations with CAMELS ratings of 5 will not be eligible for awards. The CDFI Fund will consider safety and soundness information from the appropriate federal or state-banking agency.

## AWARD USE

FA monetary awards can be expended for activities in the following five categories: financial products, financial services (insured depository institutions only), loan loss reserves, development services, and capital reserves (insured depository institutions only). Each allowable activity category is eligible for indirect costs and an associated indirect cost rate. Indirect cost rates are determined as part of the terms and conditions of the award.

TA monetary awards can be expended for salaries and fringe benefits of the applicant's personnel for work performed directly related to carrying out the purpose of the TA grant; travel costs of related personnel; professional service costs; training and education costs; and supplies and equipment. Each allowable activity category is eligible for indirect costs and an associated indirect cost rate. Indirect cost rates are determined as part of the terms and conditions of the award.

## POTENTIAL BENEFITS

The CDFI Fund is unique among federal programs because it takes an enterprise approach to its programming by strengthening institutions rather than funding specific projects.

The TA award program helps organizations develop the capacity to become CDFIs or expand their affordable housing or other lending.

## POTENTIAL CHALLENGES

Both financial assistance and technical assistance awards are competitive. Not all completed, qualified applications will receive funding since a typical round attracts many more requests than funding available.

By statute, awardees must match the monetary award (FA) dollar for dollar.

## FUNDING AVAILABLE

Funding availability is subject to federal appropriations. A typical funding round is approximately \$150 million. Under no circumstances will an award be higher than \$2 million for any recipient or \$5 million in total awards over a three-year period.

### Potential Benefits

- The CDFI Fund is unique among federal programs because it takes an enterprise approach to its programming by strengthening institutions rather than funding specific projects.
- The TA award program helps organizations develop the capacity to become CDFIs or expand their affordable housing or other lending.

### Potential Challenges

- Both financial assistance and technical assistance awards are competitive. Not all completed, qualified applications will receive funding since a typical round attracts many more requests than funding available.
- By statute, awardees must match the monetary award (FA) dollar for dollar.

## RESOURCES

### CDFI Program information

<https://www.cdfifund.gov/programs-training/Programs/cdfi-program/Pages/default.aspx>

### Application Process

<https://www.cdfifund.gov/programs-training/Programs/cdfi-program/Pages/apply-step.aspx#step22>

### CDFI certification

<https://www.cdfifund.gov/programs-training/certification/cdfi/Pages/default.aspx>

## Capital Magnet Fund

Competitive monetary awards to CDFIs and nonprofit housing developers to attract private capital for affordable housing and community and economic development associated with affordable housing

### BACKGROUND AND PURPOSE

The Capital Magnet Fund (CMF) is a competitive grant program designed to attract private capital to the development, preservation, rehabilitation, or purchase of affordable housing for low-income families. The CMF is not a block grant to state or local governments or housing authorities; the monetary awards are competitively awarded as grants to community development financial institutions (CDFIs) and nonprofit housing organizations to support financing tools, such as loan loss reserves or loan guarantees for affordable housing. Awards must be leveraged at least \$10 to \$1 with funding from other sources.

The CMF was enacted as part of the Housing and Economic Recovery Act (HERA) of 2008 to provide flexible public funds to attract private investment into affordable housing projects through allocations from

Fannie Mae and Freddie Mac based on new business purchases. This funding was suspended because of the conservatorship of Fannie Mae and Freddie Mac until the Federal Housing Finance Agency (Fannie Mae and Freddie Mac's regulator) lifted the suspension in late 2014, starting contributions on January 1, 2015. In 2016, CMF will award over \$93 million in grants to CDFIs and nonprofit housing organizations.

The legislation creating the CMF also allowed it to be capitalized through regular appropriations, which occurred in fiscal year (FY) 2010 with \$80 million to jumpstart the program. During the FY 2010 round of the CMF, the CDFI Fund received applications requesting over \$1 billion in grants. Of 230 applicants, 23 organizations received awards; 13 awardees were nonprofit housing developers, nine were CDFIs, and

PROGRAM NAME	Capital Magnet Fund
AGENCY	U.S. Department of the Treasury - CDFI Fund
EXPIRATION DATE	Dependent on Fannie Mae and Freddie Mac contributions
APPLICATIONS	<a href="https://www.cdfifund.gov/programs-training/Programs/cmf/Pages/default.aspx">https://www.cdfifund.gov/programs-training/Programs/cmf/Pages/default.aspx</a>
WEB LINK	<a href="https://www.cdfifund.gov/programs-training/Programs/cmf/Pages/default.aspx">https://www.cdfifund.gov/programs-training/Programs/cmf/Pages/default.aspx</a>
CONTACT INFORMATION	<a href="mailto:cdfihelp@cdfi.treas.gov">cdfihelp@cdfi.treas.gov</a>
APPLICATION PERIOD	Annually
GEOGRAPHIC SCOPE	National

one was a Tribal housing authority. Each dollar of CMF funding attracted over \$12 in other capital for affordable housing.

## ELIGIBILITY CRITERIA

Eligible recipients are U.S. Department of the Treasury certified CDFIs or nonprofit organizations that develop or manage affordable housing.

Applications for the competitive grants are required to include a detailed description of the types of affordable housing and economic and community revitalization projects for which the entity would use the grant, as well as the anticipated timeframe in which the entity intends to use it. CMF award dollars (and leveraged costs) must be used to finance affordable housing units that are affordable to families making less than 120 percent of the area median income (AMI). Greater than 50 percent of CMF award dollars (and leveraged costs) must be used to finance affordable housing units that are affordable to families making less than 80 percent of AMI.

At least 20 percent of the units in each rental project financed in whole or in part by CMF award dollars must be affordable to families making less than 50 percent of AMI and at least 20 percent of the units in each multifamily homeownership project must be affordable to families making less than 80 percent of AMI. No more than 5 percent of CMF award dollars can be used for direct administrative costs.

No grantee (including subsidiaries or affiliates) can be awarded more than 15 percent of all funding available in a given year, and those receiving grants must spend the funds within two years of the date received.

A minimum of 70 percent of CMF money must be used for housing; the remainder may be used for economic development activities or community service facilities (such as day care centers, workforce development centers, and health care clinics), which in conjunction with affordable housing activities, implement a concerted strategy to revitalize low-income or underserved rural areas.

CMF financed housing must meet affordability requirements for at least 10 years.

Each grantee must track its funds by issuing periodic financial and project reports, and by fulfilling audit requirements.

CMF monetary awards must be leveraged at least \$10 to \$1 with funding from other sources. To leverage funds, CMF dollars may be used to provide loan loss reserves, capitalize a revolving loan fund or an affordable housing fund, make risk-sharing loans, or finance community and economic development activities mentioned previously.

## POTENTIAL BENEFITS

The Capital Magnet Fund is effective at using a small government subsidy to attract large amounts of private capital to support affordable housing and related community or economic development.

It may be used to meet capital requirements and mitigate risk.

## POTENTIAL CHALLENGES

Application requires staff time and knowledge to complete.

Requires extensive knowledge of potential business opportunities and community partnerships in order to use the funds in a short time frame.

## Potential Benefits

- The Capital Magnet Fund is effective at using a small government subsidy to attract large amounts of private capital to support affordable housing and related community or economic development.
- It may be used to meet capital requirements and mitigate risk.

## Potential Challenges

- Application requires staff time and knowledge to complete.
- Requires extensive knowledge of potential business opportunities and community partnerships in order to use the funds in a short time frame.

## RESOURCES

### CDFI certification

<https://www.cdfifund.gov/programs-training/certification/cdfi/Pages/default.aspx>

### Capital Magnet Fund

<https://www.cdfifund.gov/programs-training/Programs/cmf/Pages/default.aspx>

### Capital Magnet Fund impact assessment

[https://www.cdfifund.gov/Documents/CMF\\_Impact\\_Assessment.pdf](https://www.cdfifund.gov/Documents/CMF_Impact_Assessment.pdf)

### Capital Magnet Fund fact sheet (available in English and Spanish)

[https://www.cdfifund.gov/Documents/CMF%20Fact%20Sheet\\_JAN2016.pdf](https://www.cdfifund.gov/Documents/CMF%20Fact%20Sheet_JAN2016.pdf)

### Capital Magnet Fund reference documents

[https://www.cdfifund.gov/Documents/Forms/Reference%20Documents.aspx?FilterField1=CDFI\\_x0020\\_Program&FilterValue1=Capital%20Magnet%20Fund](https://www.cdfifund.gov/Documents/Forms/Reference%20Documents.aspx?FilterField1=CDFI_x0020_Program&FilterValue1=Capital%20Magnet%20Fund)



## Fannie Mae

*We have included the most recent information available at the date of publication. At the end of each section, we include a list of resources with web links where you can find updates, as well as information about additional programs and other helpful information related to the subject.*

### OVERVIEW

Fannie Mae is a government-sponsored enterprise, or GSE, created by the federal government to ensure access to home mortgage credit. Fannie Mae's historical mission is to provide liquidity, stability, and affordability to the U.S. housing finance system, in all communities, under all economic conditions. It provides liquidity to the mortgage market by buying loans conforming to certain standards from banks and other loan originators, thus enabling lenders to make new loans with the proceeds from the sale. Fannie Mae then issues securities backed by pools of these mortgages that it sells to capital markets. It guarantees that investors in these securities will receive prompt payment of the principal and interest due on the mortgages. Banks may sell loans to Fannie Mae individually or pooled with other loans, directly or through intermediaries.

Fannie Mae funds its operations and loan loss reserves largely through fees, which banks may pass through to borrowers. Fannie Mae charges both annual guarantee fees and loan-level price adjustments (LLPAs). LLPAs are upfront charges, which vary based on credit score, loan-to-value ratio, type of product, and various other factors.

Fannie Mae is charged with affordable housing goals.<sup>7</sup> It operates special programs with underwriting standards that eliminate common barriers to low-income homeownership, such as high down payments, credit history issues, and the inability to get affordable fixed-rate financing on unusual property types that tend to be more affordable, such as

manufactured homes and properties with significant deferred maintenance. The goals were first implemented in 1993 and provide clear guidelines for low- and moderate-income (LMI) lending that the GSEs are required to facilitate.

### MORTGAGE INSURANCE AND LOAN LIMITS

Fannie Mae requires mortgage insurance (MI) on all loan amounts that exceed 80 percent of the property value. The amount of MI coverage required varies by transaction type and loan-to-value range. Fannie Mae offers standard and minimum mortgage insurance pricing options for all loan products. Minimum MI coverage options typically carry corresponding MI loan-level price adjustments (MI LLPAs). Loan-level price adjustments are risk-based pricing adjustments that apply at the time of delivery only. MI LLPAs vary by credit score and loan-to-value and currently range from 0.125 percent to 3 percent. The table on page 95 provides the level of MI coverage required for all first-lien mortgages delivered to Fannie Mae.

Fannie Mae's regulator, the Federal Housing Finance Agency (FHFA), publishes Fannie Mae's conforming loan limits annually. Loan limits vary by number of units and by property location. Properties in areas defined as "high cost" are associated with higher loan limits. The current range for original principal balance for single-family, one-unit properties is \$417,000 to \$625,500 depending on the geography (two- to four-unit properties have correspondingly higher loan limits).

**This Guide covers the following Fannie Mae affordable homeownership options:**

**HomeReady™ Mortgage:** Low down payment financing with discounted fees for creditworthy LMI borrowers.

**Standard 97 Percent Loan-to-Value Mortgage:** Low down payment financing with standard fees for creditworthy first-time homeowners who do not meet HomeReady™ Mortgage income limits.

**HomeStyle® Renovation Mortgage:** Financing that covers purchase and renovation costs in a single loan.

**Manufactured Housing Mortgage:** Financing for manufactured homes that uses the credit standards of the home mortgage market rather than the chattel (movable property) loan market.

**Refi Plus™/Home Affordable Refinance Program (HARP):** Helps responsible borrowers with little or no home equity to refinance into more affordable mortgages.

## DOING BUSINESS WITH FANNIE MAE

### Benefits

Delivering mortgage loans to the secondary market through Fannie Mae can help community banks provide access to sustainable affordable mortgage products and responsibly expand mortgage business opportunities while limiting long-term credit, prepayment, and interest rate risks.

### Delivery Options

There are several ways for banks to deliver loans to Fannie Mae. They can become direct Fannie Mae approved sellers or seller/servicers. They can participate in the MPF Xtra,<sup>7</sup> a suite of Fannie Mae-eligible products offered by eight Federal Home Loan Banks (FHLBanks) to their member organizations under the umbrella of the Mortgage Partnership Finance (MPF) program in which Fannie Mae is the end investor. Fannie Mae and its lender partners also work directly with many state and local housing finance agencies to provide mortgage-lending options.<sup>8</sup> Banks can generate loans for sale to Fannie Mae through the Independent Community Bankers of America's (ICBA) Correspondent Lending Program. Finally, banks can act as a correspondent lender by originating and funding loans, and then selling them to investors or "aggregators" that sell to Fannie Mae, and/or generate loans that are funded in the name of an investor and then sold to Fannie Mae.

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<sup>7</sup> Detailed information regarding the Federal Home Loan Banks will be addressed in the forthcoming publication, "Affordable Mortgage Lending Guide, Part III: Federal Home Loan Banks."

<sup>8</sup> Detailed information regarding State Housing Finance Agencies will be addressed in the forthcoming publication, "Affordable Mortgage Lending Guide, Part II: State Housing Finance Agencies."

## PROGRAMS IN THIS SECTION:

**HomeReady™ Mortgage:** Low down payment financing with discounted fees for creditworthy LMI borrowers.

**Standard 97 Percent Loan-to-Value Mortgage:** Low down payment financing with standard fees for creditworthy first-time homeowners who do not meet HomeReady™ Mortgage income limits.

**HomeStyle® Renovation Mortgage:** Financing that covers purchase and renovation costs in a single loan.

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**Refi Plus™/Home Affordable Refinance Program (HARP):** Helps responsible borrowers with little or no home equity to refinance into more affordable mortgages.

## Fannie Mae Mortgage Insurance Coverage Requirements (2016)<sup>9</sup>

TRANSACTION TYPE	LOAN-TO-VALUE RANGE			
	80.01%-85.00%	85.01%-90.00%	90.01%-95.00%	95.01%-97.00%
Fixed-rate, term ≤ 20 years	6%	12%	16%* + MI LLPA	18%* + MI LLPA
			25%^	35%^
Fixed-rate, term > 20 years; ARMs; and Manufactured Homes	6%* + MI LLPA	12%* + MI LLPA	16%* + MI LLPA	18%* + MI LLPA
	12%^	25%^	30%^	35%^
HomeReady™ mortgage, fixed-rate, term ≤ 20 years	6%	12%	16%* + MI LLPA	18%* + MI LLPA
			25%^	25%^
HomeReady™ mortgage, fixed-rate, term > 20 years; ARMs; and Manufactured Homes	6%* + MI LLPA	12%* + MI LLPA	16%* + MI LLPA	18%* + MI LLPA
	12%^	25%^	25%^	25%^

\* Minimum coverage options.

^ Standard coverage options (standard coverage options do not carry additional LLPAs).

### Delivering to Fannie Mae as a direct seller or seller/servicer

In order for banks to deliver loans directly to Fannie Mae, they must become approved sellers or seller/servicers. Fannie Mae approved sellers and seller/servicers are able to deliver a wide range of single-family mortgage products, including purchases and refinances on one- to four-unit properties, and refinances through the Home Affordable Refinance Program (HARP). Both fixed-rate and adjustable-rate products are available. When delivering loans to Fannie Mae, lenders must provide (directly or indirectly through a service provider) certain representations and warranties (reps and warrants).

Approved sellers or seller/servicers are also provided with training, technical support, and business development support. Once approved, lenders are assigned a Fannie Mae Customer Account Manager (CAM) to help them navigate Fannie Mae's benefits, systems, and requirements.

### Approval process to deliver as a Fannie Mae direct seller or seller/servicer

Lenders can be approved through Fannie Mae as a seller/servicer or as a direct seller only. Fannie Mae seller/servicers either service loans directly or contract with a Fannie Mae approved subservicer. If approved

as a seller only, servicing rights must be transferred to a Fannie Mae approved servicer.

The seller/servicer approval process is estimated to take between four and 14 months from the time of application through final approval. Banks interested in becoming a Fannie Mae approved seller or seller/servicer must meet minimum financial standards including a minimum net worth of \$2.5 million plus 25 basis points of unpaid principal balance for total one- to four-unit residential mortgage loans serviced. Operational standards, related quality control, and servicing requirements apply as well.

### Delivering to Fannie Mae through FHLBank MPF Xtra

The FHLBanks are 11 government-sponsored regional banks that offer a range of funding options for member financial institutions across the country.

The Federal Home Loan Bank of Chicago launched the Mortgage Partnership Finance (MPF) Program in 1997 to provide another secondary market outlet for its members to sell fixed-rate mortgage loans. Today, nine of the 11 FHLBanks purchase conventional and government loans through the MPF program. The majority of financial institutions participating in this program

<sup>9</sup> The Housing and Economic Recovery Act (HERA) established a formula used by the FHFA to establish annual loan limits.

are small banks or thrifts with assets of less than \$400 million. While the basic MPF product is a portfolio product, certain FHLBanks offer access to Fannie Mae through their MPF Xtra product.

MPF Xtra is offered to members of the Federal Home Loan Banks of Atlanta, Boston, Chicago, Dallas, Des Moines, Pittsburgh, San Francisco, and Topeka. Under MPF Xtra, the FHLBanks operate as a pass-through for member institutions to sell loans to Fannie Mae without retaining credit risk.

Members of the eight FHLBanks offering MPF Xtra can pursue approval to sell mortgages through the MPF program as a Participating Financial Institution (PFI). Through MPF Xtra, FHLBank PFIs can take advantage of the benefits of secondary market liquidity while avoiding the financial and operational requirements associated with becoming a direct Fannie Mae seller/servicer.

PFIs also receive support and guidance from their FHLBank MPF provider that helps ensure the loan manufacturing and data quality necessary for secondary market mortgage sales. The administrator of the MPF program and Fannie Mae's seller/servicer, the Federal Home Loan Bank of Chicago, assumes the reps and warrants to Fannie Mae on loans sold through MPF Xtra. However, PFIs are required to retain the customary reps and warrants required by the FHLBanks on loans sold through MPF Xtra.

The MPF Xtra product has no minimum collateral or risk-based capital requirements, and all PFIs receive access to most standard Fannie Mae mortgage products. PFIs are provided access to Fannie Mae's Desktop Underwriter® (DU) risk assessment platform and can use either automated or manual underwriting processes. Second mortgages cannot be used in conjunction with the MPF Xtra product.

### **Delivering to Fannie Mae through ICBA's Correspondent Lending Program**

ICBA's Correspondent Lending Program offers member institutions access to various government-sponsored enterprise (GSE) and government loan program product options. For a fee, ICBA member banks can originate Fannie Mae loan products and deliver them to ICBA, which aggregates the loans, allowing the bank to take advantage of secondary market liquidity and

GSE product offerings, while avoiding the operational requirements of becoming a direct Fannie Mae seller/servicer.

### **Delivering to Fannie Mae through other third parties**

Smaller lenders often turn to investors or aggregators to help them carry out underwriting, funding, and/or secondary market sales functions. Correspondent lenders typically fund loans in their own names and then sell them to investors, who in turn sell the loans into the secondary market. In some cases, the correspondent lenders handle the underwriting in-house. In other cases, the investor acts as the underwriter. Smaller lenders that are interested in originating loans but do not have the internal capacity to either underwrite or fund the loans can also work with investors to carry out the origination function while looking to the investor to underwrite and fund the loans in the name of the investor.

Thus, lenders can work with sponsoring Fannie Mae approved seller/servicers to originate Fannie Mae loan products. Originating loans for or selling loans to a Fannie Mae approved lender or aggregator can be useful to banks that do not meet minimum standards and/or do not have the internal capacity to become Fannie Mae approved.

Fannie Mae offers the Desktop Originator®, a portal system that provides product guidelines and preliminary automated underwriting (Desktop Underwriter®), to lenders working with investors. However, many aggregators and/or investors administer their own underwriting guidelines or overlays, which may be more restrictive than standard Fannie Mae program requirements. Final underwriting decisions, standards for delivery, and fees for participation are set by each investor.

## SYSTEM REQUIREMENTS AND QUALITY CONTROL

Use of Desktop Underwriter®, Fannie Mae's automated credit risk assessment platform, is required for all Fannie Mae sellers, including seller/servicers. DU provides an assessment of a loan's eligibility for sale and delivery to Fannie Mae. Lenders can access DU through an interface on [FannieMae.com](https://FannieMae.com) or through an integrated third-party or proprietary loan origination system. Fannie Mae uses trended data in its credit risk assessment for loans submitted through Desktop Underwriter®. Trended credit data provides expanded information on a borrower's revolving account credit history including whether the borrower pays off the balance each month or makes the minimum payment due, and whether the borrower exceeds the credit limit. There is no charge for Desktop Underwriter®. Fannie Mae sellers are also required to have a quality control program in place that includes pre-funding and post-funding quality control reviews, covers the full scope of the mortgage origination business of the bank, and includes an active role by senior management in the effective resolution of gaps discovered in the origination process.

## RESOURCES

**Path to Approval Toolkit:** Reference guide for prospective Fannie Mae seller/servicers.

<https://www.fanniemae.com/content/tool/prospective-seller-servicer-reference-guide.pdf>

**Fannie Mae Prospective Seller/Servicer road map:** One-page summary of approval process.

[https://www.fanniemae.com/content/fact\\_sheet/prospective-seller-servicer-roadmap.pdf](https://www.fanniemae.com/content/fact_sheet/prospective-seller-servicer-roadmap.pdf)

**Fannie Mae's Housing Finance Institute:** Training opportunities including virtual classrooms, webinars, on-demand E-Learning courses, and job aids.

<https://www.fanniemae.com/singlefamily/training>

**Fannie Mae Selling Guide:** Rules and regulations covering all aspects of selling loans to Fannie Mae including lender approval, loan origination, loan delivery, and quality control.

<https://www.fanniemae.com/content/guide/selling/index.html>

**Fannie Mae Servicing Guide:** Rules and regulations covering all aspects of servicing loans sold to Fannie Mae including payment processing, escrow management, borrower repayment solutions, and bankruptcies and foreclosures.

<https://www.fanniemae.com/content/guide/servicing/index.html>

**Fannie Mae Desktop Underwriter®** (trended data)

[https://www.fanniemae.com/content/fact\\_sheet/desktop-underwriter-trended-data.pdf](https://www.fanniemae.com/content/fact_sheet/desktop-underwriter-trended-data.pdf)

**ICBA Correspondent Lending Program:** Program description and available products list.

<http://www.icbams.com>

**List of approved lenders:** List of Fannie Mae approved aggregators.

<https://www.fanniemae.com/content/list/desktop-originator-sponsoring-lenders.html>

### Using Fannie Mae's HomeReady™ Mortgage Product

*The FDIC talked with community bankers about using Fannie Mae's HomeReady™ Mortgage and other mortgage products. The following are excerpts from these discussions.*

The HomeReady™ Mortgage (HomeReady) provides low down payment financing with discounted fees to first-time and other homebuyers who meet program income limits. It requires borrowers to take an online homeownership class.

#### Working with Fannie Mae

One bank representative said that her bank has been using Fannie Mae products for 24 years. The bank takes advantage of all Fannie Mae products, which she says helps the bank to meet market demands and stay competitive. She said that her bank delivers loans to Fannie Mae as an approved seller/servicer, as well as through a correspondent lender. "The good thing about using a correspondent," she says, "is that the investor does the underwriting and will purchase the loan, but the cons include the longer processing time and that servicing is not kept in-house." The bank uses both Fannie Mae's Desktop Underwriter® and manual underwriting if needed.

A significant portion of another bank's low- and moderate-income (LMI) borrower loans are made using Fannie Mae's HomeReady® Mortgage products as an approved seller/servicer.

#### Program benefits

One representative said, "Credit score requirements are more accommodating to borrowers' needs with Fannie Mae than with our portfolio guidelines. The down payment is also more flexible, as Fannie Mae will allow a 3 percent down payment. The reduced reserves needed for the loan is another flexibility."

Another banker from the Midwest points out that if you are already a Fannie Mae approved seller/servicer (or work with one), integrating HomeReady into your

mortgage line of business can be a natural strategy, and can be an easier route than getting into other government lending programs. The banker says that she has had success with HomeReady and other programs like it. Because of this, she has not had to rely on a portfolio product for CRA purposes to date.

#### Overcoming challenges

One banker noted that underwriting these products can present internal challenges and suggests that the loan origination system can be the key to successful product delivery. "No doubt that there is more paperwork and more required documents, at least with the approach that we have taken to couple Fannie Mae's products with state down payment assistance programs." She also pointed out that the lower loan amounts of some community development loans can more easily trigger the risk of exceeding HOEPA "high-cost" loan points and fees thresholds.<sup>10</sup> To keep up with these and other regulatory and programmatic changes, the bank uses a third party's automated loan origination system.

She also believes that internal staff buy-in and support is critical to success. She said that finding the right loan officers is very important.

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<sup>10</sup> The Home Ownership and Equity Protection Act (HOEPA) was enacted in 1994 as an amendment to the Truth in Lending Act (TILA) to address abusive practices in mortgage lending relating to high interest rates or high fees. Mortgage loans meeting any of HOEPA's high-cost APR or points and fees tests are subject to special disclosure requirements and restrictions on loan terms. The points and fees HOEPA threshold is currently 5 percent of the total loan amount on a transaction with a loan amount that is equal to or greater than \$20,391, or the lesser of 8 percent or \$1,020 if loan amount is less than \$20,391.



According to another banker, one of the biggest challenges in offering Fannie Mae products is keeping up with the constant changes in products, guidelines, and technology. Training for loan officers is done in-house and through Fannie Mae webinars. In order to stay current, training is an ongoing process.

### **Advice for other banks considering Fannie Mae products**

“Adding affordable lending products to our bank’s product mix and creating an efficient underwriting and delivery system are key to the bank’s success,” said one bank representative who also pointed out that the products should also fit with a bank’s overall business strategy and CRA business plan. The representative explained that her bank’s CRA business plan revolves around “products, partners, and promotion.” She lists internal staff training, development of key external partners, and commitment to consistent community outreach and promotional efforts as critical drivers of success. “It really is a combination of those things. We train our loan officers, we do internal promotion, and we partner with real estate agents who may have listings that would be eligible for the programs, as well as several local HUD-approved nonprofits.” Another banker agreed, noting that her bank’s loan officers market the product through real estate agents in the community.

One banker said that she and other bank staff have also participated in at least 50 workshops so far this year, either on their own, or in partnership with real estate agents, insurance agents, or attorneys. “Last night I was at a library in one of the suburban communities and we talked to people about credit, just basic information that they should know about their credit, things they can do to improve their credit, and of course we always talk about the down payment assistance programs and the low down payment mortgages that are out there. You have to do outreach because you don’t otherwise have bank customers knowing or asking about these products.”

## HomeReady™ Mortgage

### Low down payment financing for low- and moderate-income borrowers

#### BACKGROUND AND PURPOSE

The HomeReady™ Mortgage (HomeReady) program helps lenders serve today's market of creditworthy, low- and moderate-income (LMI) borrowers, and encourages the financing of homes in designated low-income, minority, and disaster-impacted communities. HomeReady offers high loan-to-value (LTV) ratio financing to help homebuyers who would otherwise qualify for a mortgage but may not have the resources for a larger down payment. HomeReady mortgages offer low rates, minimal risk-based price adjustments compared to other programs, and reduced mortgage insurance costs.

#### BORROWER CRITERIA

**Income limits:** Borrower income must be below 80 percent of the area median income (AMI), with some exceptions based on the property's location. There is no income limit on properties in low-income census

tracts. Borrowers wishing to purchase in high-minority census tracts<sup>11</sup> and designated disaster areas may have incomes up to 100 percent of AMI.

**Credit:** HomeReady allows for nontraditional credit. Credit scores as low as 620 are permitted. This limit is revised annually. For manual underwriting, there is a minimum credit score of 660 for one-unit properties and a credit score minimum of 680 for two- to four-unit properties. Risk-based pricing is waived in some instances based on credit score. Fannie Mae also uses trended data in its credit risk assessment including those loans submitted through Desktop Underwriter®. Trended credit data provides expanded information on a borrower's revolving account credit history including whether the borrower pays off the balance each month or makes the minimum payment due, and whether the borrower exceeds the credit limit.

PROGRAM NAME	HomeReady™ Mortgage
AGENCY	Fannie Mae
EXPIRATION DATE	Not Applicable
APPLICATIONS	No program-specific application is required. For information on becoming a Fannie Mae seller, see <a href="https://www.fanniemae.com/singlefamily/become-seller-servicer">https://www.fanniemae.com/singlefamily/become-seller-servicer</a>
WEB LINK	<a href="https://www.fanniemae.com/singlefamily/homeready">https://www.fanniemae.com/singlefamily/homeready</a>
CONTACT INFORMATION	<a href="mailto:Sellerservicer_application@fanniemae.com">Sellerservicer_application@fanniemae.com</a> (ask for a call-back in your email)
APPLICATION PERIOD	Continuous
GEOGRAPHIC SCOPE	National; higher income limits for low-income, minority, and disaster area designated census tracts.

**First-time homebuyers:** Allowed, but does not confer a special benefit.

**Occupancy and ownership of other properties:** Only single-unit, owner-occupied primary residences are allowed. Ownership of other properties is not allowed. Condominiums, townhomes, and planned unit developments are allowed. Manufactured housing is allowed with an LTV up to 95 percent. HomeStyle® Renovation mortgages are allowed with a LTV up to 95 percent. HomeReady offers flexibilities for extended family households, such as permitting rental income from an ancillary dwelling unit or boarder.

**Special populations:** Public servants (police, firefighters, health care workers, teachers, etc.) and military personnel may access special flexibilities, such as use of overtime and part-time income to qualify. These loans no longer require manual underwriting.

**Special assistance for persons with disabilities:** HomeReady incorporates many underwriting flexibilities for persons with disabilities, such as using a nonresident co-borrower, and offers them to any borrower as part of automatic underwriting.

**Property type:** Single-unit purchases can be co-ops, condominiums, manufactured housing, and planned unit developments.

## LOAN CRITERIA

**Loan limits:** FHFA publishes Fannie Mae's conforming loan limits annually. For 2016, a one-unit property has a loan limit ranging from \$417,000 to \$625,500 depending on geography. Certain high-cost areas are also taken into consideration ([www.fhfa.gov](http://www.fhfa.gov)).

**Loan-to-value limits:** Up to 97 percent LTV allowed. Use of Desktop Underwriter® is required for LTVs greater than 95 percent.

**Adjustable-rate mortgages:** The following ARMs are allowed: 5/1 with 2/2/5 caps only, and 7/1 and 10/1 with caps that vary according to Fannie Mae's standard ARM matrix.

**Down payment sources:** Allowable sources include gifts, grants, Community Seconds®, and cash on hand. There is no minimum requirement from the borrower's own funds.

**Homeownership counseling:** Comprehensive homeownership education is required for all borrowers through an online course provided by Framework®, a HUD-approved social enterprise run by the Housing Partnership Network. Borrowers will invest four to six hours (average) of their time and a fee of \$75 (paid to Framework®) to learn the fundamentals of buying and owning a home, take an online test, and receive

## POTENTIAL BENEFITS

The HomeReady™ Mortgage program may allow community banks to expand their customer base by serving more low- and moderate-income borrowers, low- and moderate-income census tracts, high-minority census tracts, and designated disaster areas.

HomeReady may help community banks access the secondary market, providing greater liquidity to enhance their lending volume.

## POTENTIAL CHALLENGES

Lenders must have a way to access the program, whether through direct sales or a correspondent arrangement. Depending on the arrangement, community banks may need to acquire or develop new expertise and infrastructure in order to participate.

This program has maximum income requirements and other borrower and loan characteristics, which could limit the pool of borrowers.

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<sup>11</sup> According to 12 USC § 4502 (29), [Title 12. Banks and Banking; Chapter 46. Government Sponsored Enterprises] the term minority census tract means "a census tract that has a minority population of at least 30 percent and a median family income of less than 100 percent of the area family median income."

a certificate of completion. One-on-one counseling by a HUD-approved counseling agency, although not required, is offered (at no additional charge) to help buyers feel confident as homeowners. To promote further sustainability, borrowers will have access to post-purchase homeownership support for the life of the loan through Framework's® homeownership advisor service.

**Loan-level price adjustments:** Loan-level price adjustments are risk-based pricing adjustments that apply at the time of delivery only. Standard risk-based pricing is waived for HomeReady loans with LTVs less than 80 percent and a credit score of 680 or greater. A risk-based, loan-level price adjustment cap of 150 basis points applies for loans outside of these parameters.

**Mortgage insurance:** HomeReady features a reduced mortgage insurance coverage requirement for loans above 90 percent LTV. Mortgage insurance is cancellable.

**Debt-to-income ratio:** Determined by Desktop Underwriter®. Income from a non-borrower household member may be considered as a compensating factor in DU to allow for a debt-to-income (DTI) ratio up to 50 percent. HomeReady allows non-occupant borrowers, such as a parent. In the event that the borrower has student loan debt and is not yet in repayment, as is the case for current students, Fannie Mae's policy is to include 1 percent of the total student loan balance in the DTI calculation. For example, if the student has a current debt of \$20,000, then Fannie Mae would add an assumed \$200 per month student loan payment to the DTI calculation.

**Temporary interest rate buy downs:** Temporary interest rate buy downs are permitted.

**Refinance:** Limited cash-out refinance up to 95 percent LTV is an eligible use of this product.

## Potential Benefits

- The HomeReady™ Mortgage program may allow community banks to expand their customer base by serving more low- and moderate-income borrowers, low- and moderate-income census tracts, high-minority census tracts, and designated disaster areas.

- HomeReady may help community banks access the secondary market, providing greater liquidity to enhance their lending volume.
- The guarantee provided by Fannie Mae under this program may help reduce exposure to credit risk.
- Loans originated through HomeReady are likely to be considered favorably under the Community Reinvestment Act because the program is targeted for use in low- and moderate-income communities or for low- and moderate-income borrowers.

## Potential Challenges

- Lenders must have a way to access the program, whether through direct sales or a correspondent arrangement, as discussed in the introduction to this section. Depending on the arrangement, community banks may need to acquire or develop new expertise and infrastructure in order to participate.
- This program has maximum income requirements and other borrower and loan characteristics, which could limit the pool of borrowers.

## SIMILAR PROGRAMS

- FHA 203(b) Mortgage Insurance Program
- Freddie Mac Home Possible Advantage<sup>SM</sup>

## RESOURCES

More information on the HomeReady™ Mortgage program

<https://www.fanniemae.com/singlefamily/homeready>

Fannie Mae standard ARM matrix

[https://www.fanniemae.com/content/eligibility\\_information/arm-matrix.pdf](https://www.fanniemae.com/content/eligibility_information/arm-matrix.pdf)

Loan Limits

<https://www.fanniemae.com/singlefamily/loan-limits>

Community Seconds®

[https://www.fanniemae.com/content/fact\\_sheet/community-seconds-fact-sheet.pdf](https://www.fanniemae.com/content/fact_sheet/community-seconds-fact-sheet.pdf)

Selling requirements

<https://www.fanniemae.com/content/guide/selling/b5/6/03.html>

## Standard 97 Percent Loan-to-Value Mortgage

### Low down payment financing for first-time homebuyers

#### BACKGROUND AND PURPOSE

According to consumer research conducted by Fannie Mae, the primary barrier to homeownership for first-time homebuyers is saving money for the down payment and closing costs. In support of ongoing efforts to expand access to credit and support sustainable homeownership, Fannie Mae offers 97 percent loan-to-value (LTV) financing to help homebuyers who would otherwise qualify for a mortgage but may not have the resources for a larger down payment. These options are designed to help lenders serve credit-worthy borrowers and expand business opportunities.

The maximum LTV ratio for Fannie Mae's standard mortgage product is up to 97 percent for first-time homebuyers, allowing first-time borrowers who exceed the HomeReady™ Mortgage income limit to still buy a home with as little as 3 percent down. One major difference is that the risk-based fee to Fannie Mae, known

as the loan-level price adjustment (LLPA), is based on the borrower's credit score and the amount of private mortgage insurance the borrower elects to purchase. Borrowers with certain risk factors must demonstrate other compensating factors to be approved for a loan. Fannie Mae eliminated risk factors that could affect homeowners' sustainability, including low-documentation loans, interest-only loans, 40-year terms, and credit scores lower than 620.

#### BORROWER CRITERIA

**Income limits:** This program has no income limits.

**Credit:** This program uses standard risk-based loan-level price adjustments that are based on credit. Fannie Mae uses trended data in its credit risk assessment including those loans submitted through Desktop Underwriter®. Trended credit data provides expanded

PROGRAM NAME	Standard 97 Percent Loan-to-Value Mortgage
AGENCY	Fannie Mae
EXPIRATION DATE	Not Applicable
APPLICATIONS	No program-specific application is required. For information on becoming a Fannie Mae seller, see <a href="https://www.fanniemae.com/singlefamily/become-seller-servicer">https://www.fanniemae.com/singlefamily/become-seller-servicer</a>
WEB LINK	<a href="https://www.fanniemae.com/singlefamily/97-ltv-options">https://www.fanniemae.com/singlefamily/97-ltv-options</a>
CONTACT INFORMATION	<a href="mailto:Sellerservicer_application@fanniemae.com">Sellerservicer_application@fanniemae.com</a> (ask for a call-back in your email)
APPLICATION PERIOD	Continuous
GEOGRAPHIC SCOPE	National

information on a borrower's revolving account credit history including whether the borrower pays off the balance each month or makes the minimum payment due, and whether the borrower exceeds the credit limit.

**First-time homebuyers:** For purchase transactions, at least one borrower must be a first-time homebuyer (no ownership interest in other residential properties for the last three years). The first-time homebuyer requirement is waived for limited cash-out refinances.

**Occupancy and ownership of other properties:** This program is intended for first-time homebuyers; however, a co-borrower could own other property. The dwelling must be the borrower's primary residence.

**Special populations:** This program does not provide special benefits for members of certain populations.

**Special assistance for persons with disabilities:** This program does not provide special benefits for people with disabilities.

**Property type:** Any type of single-unit property except a manufactured home is eligible.

## LOAN CRITERIA

**Loan limits:** FHFA publishes Fannie Mae's conforming loan limits annually. For 2016, a one-unit property has a loan limit ranging from \$417,000 to \$625,500 depending on geography. Certain high-cost areas are also taken into consideration.

**Loan-to-value limits:** The LTV limit is 97 percent, or up to 105 percent with a Community Seconds® subordinate lien. It may not be combined with a HomeStyle® Renovation Loan or high-balance loans.

**Adjustable-rate mortgages:** Loans under this program may not be ARMs.

**Down payment sources:** This program follows Fannie Mae's standard for borrower contribution, which for a one-unit purchase transaction is zero. Gifts, grants, Community Seconds®, and other down payment assistance programs, and the borrower's own funds are all eligible sources.

**Homeownership counseling:** Homeownership counseling is not required, but recommended.

**Loan-level price adjustments:** Loan-level price adjustments are risk-based pricing adjustments that apply at the time of delivery only. This program is subject to standard Fannie Mae risk-based LLPAs dependent on credit scores.

**Mortgage insurance:** Unlike the HomeReady™ Mortgage program, borrowers have two insurance coverage level options: standard coverage of 35 percent and minimum coverage of 18 percent with corresponding LLPAs. Lenders that choose less than standard coverage (but no lower than minimum coverage) are assessed an LPA based on the LTV ratio

## POTENTIAL BENEFITS

The guarantee provided by Fannie Mae under this program may limit exposure to credit risk.

Loans originated through Fannie Mae's Standard 97 Percent Loan-to-Value may be favorably considered during the bank's Community Reinvestment Act evaluation, depending on the geography or incomes of the participating borrowers.

## POTENTIAL CHALLENGES

Lenders must have a way to access the program, whether through direct sales or a correspondent arrangement. Depending on the arrangement, community banks may need to acquire or develop new expertise and infrastructure in order to participate.

(95.01 percent to 97.00 percent) and representative credit score.

**Debt-to-income ratio:** Determined by Desktop Underwriter®. In the event that the borrower has student loan debt and is not yet in repayment, as is the case for current students, Fannie Mae's policy is to include 1 percent of the total student loan balance in the debt-to-income calculation. For example, if the student has a current debt of \$20,000, then Fannie Mae would add \$200 to the DTI calculation.

**Temporary interest rate buy downs:** Temporary interest rate buy downs are allowed, provided that the rate reduction does not exceed 3 percent, and the rate increase will not exceed 1 percent per year. When the source of the buy-down funds is an interested party to the property sale or purchase transaction, Fannie Mae's interested-party contribution limits apply. When underwriting mortgage loans that have a temporary interest rate buy-down, the lender must qualify the borrower based on the note rate without consideration of the buy-down rate.

**Refinance:** Limited cash-out refinance is an eligible use of this product. Fannie Mae's standard policies for limited cash-out refinances apply. The first-time homebuyer requirement is waived. The lender must document that the existing loan being refinanced is owned (or securitized) by Fannie Mae. Documentation may come from the lender's servicing system, the current servicer, Fannie Mae's Loan Lookup tool, or any other source as confirmed by the lender.

**Underwriting:** Desktop Underwriter® only; manual underwriting is not allowed.

## Potential Benefits

- The guarantee provided by Fannie Mae under this program may limit exposure to credit risk.
- Loans originated through Fannie Mae's Standard 97 Percent Loan-to-Value may be favorably considered during the bank's Community Reinvestment Act evaluation, depending on the geography or incomes of the participating borrowers.
- Fannie Mae's Standard 97 Percent Loan-to-Value Mortgage may allow community banks to expand

their customer base in low- and moderate-income communities.

- Fannie Mae's Standard 97 Percent Loan-to-Value Mortgage may help community banks access the secondary market, providing greater liquidity to enhance their lending volume.

## Potential Challenges

- Lenders must have a way to access the program, whether through direct sales or a correspondent arrangement, as discussed in the introduction to this section. Depending on the arrangement, community banks may need to acquire or develop new expertise and infrastructure in order to participate.
- The program may not be the best fit for many low- and moderate-income borrowers; there are alternatives such as the more targeted GSE programs. The Federal Housing Administration or the U.S. Department of Agriculture may have more appropriate programs, depending on the incomes, available down payment resources, and credit histories of the applicants.

## SIMILAR PROGRAMS

- Fannie Mae HomeReady™ Mortgage
- FHA 203(b) Mortgage Insurance Program



## RESOURCES

Fannie Mae's interested-party contribution limits

<https://www.fanniemae.com/content/guide/selling/b3/4.1/02.html>

Loan-level price adjustment matrix

<https://www.fanniemae.com/content/pricing/llpa-matrix.pdf>

Fannie Mae's Loan Lookup tool

<https://knowyouroptions.com/loanlookup>

Conforming loan limits

<http://www.fhfa.gov/DataTools/Downloads/Pages/Conforming-Loan-Limits.aspx>

## HomeStyle® Renovation Mortgage

### Finances purchase and renovation in a single mortgage

#### BACKGROUND AND PURPOSE

The HomeStyle® Renovation (HSR) Mortgage permits borrowers to include financing for home improvements in a purchase or refinance transaction on existing homes. The HSR Mortgage provides a convenient way for borrowers to make renovations, repairs, or improvements totaling up to 50 percent of the as-completed appraised value of the property with a first mortgage, rather than a second mortgage, home equity line of credit, or other more costly financing method. Eligible borrowers include individual homebuyers, investors, nonprofit organizations, and local government agencies.

A healthy housing market includes homes at various levels of quality, including less expensive “starter homes” that help low- and moderate-income households become homeowners and start building equity. Frequently, starter homes are older and have deferred maintenance that drives down the price. Access to

affordable credit that covers not just the purchase price but also the cost of renovations is essential for the continued viability of starter homes as a strategy to promote homeownership.

#### BORROWER CRITERIA

**Income limits:** This program has no income limits.

**Credit:** The borrower’s credit score influences the loan parameters. The minimum credit score is 620. Fannie Mae uses trended data in its credit risk assessment including those loans submitted through Desktop Underwriter®. Trended credit data provides expanded information on a borrower’s revolving account credit history including whether the borrower pays off the balance each month or makes the minimum payment due, and whether the borrower exceeds the credit limit.

PROGRAM NAME	HomeStyle® Renovation Mortgage
AGENCY	Fannie Mae
EXPIRATION DATE	Not Applicable
APPLICATIONS	<a href="https://www.fanniemae.com/content/guide_form/1000a.pdf">https://www.fanniemae.com/content/guide_form/1000a.pdf</a>
WEB LINK	<a href="https://www.fanniemae.com/content/guide/selling/b5/3.2/02.html">https://www.fanniemae.com/content/guide/selling/b5/3.2/02.html</a>
CONTACT INFORMATION	<a href="mailto:Sellerservicer_application@fanniemae.com">Sellerservicer_application@fanniemae.com</a> (ask for a call-back in your email)
APPLICATION PERIOD	Continuous
GEOGRAPHIC SCOPE	National

**First-time homebuyers:** First-time homeowner status confers no benefit.

**Occupancy and ownership of other properties:** A borrower may be financing no more than four properties, including a primary residence. This program may be used for a primary residence, second home, or investment property.

**Special populations:** Nonprofits, for-profits, and government agencies are eligible borrowers. Nonprofits must provide information on their track records with this type of work.

**Special assistance for persons with disabilities:** Funds may be used to outfit a home for use by a person with a disability.

**Property type:** The property may be a one- to four-unit primary residence, a one-unit second home, or a one-unit investment property with each having separate loan-to-value (LTV) limits. Fee simple ownership, co-ops, condominiums, and planned unit developments are allowed; manufactured housing is not allowed. When the security property is a unit in a condominium or co-op project, the project must be one for which the proposed renovation work is permissible under the bylaws of the homeowners' association or co-op corporation or one for which the homeowners' association or co-op corporation has given written approval for the renovation work. The renovation work for a condominium or co-op unit must be limited to the interior of the unit.

**Renovation or repair requirements:** Any type of renovation or repair is eligible, as long as it is permanently affixed to the property and adds value. Renovations should be completed within 12 months from the date that the mortgage loan is delivered.

## LOAN CRITERIA

**Loan limits:** FHFA publishes Fannie Mae's conforming loan limits annually. For 2016, a one-unit property has a loan limit ranging from \$417,000 to \$625,500 depending on geography. Certain high-cost areas are also taken into consideration ([www.fhfa.gov](http://www.fhfa.gov)).

**Loan-to-value limits:** For purchase transactions, the LTV ratio is based on the lesser of the purchase price and cost of renovation or as-completed value. A combined LTV of up to 105 percent is allowed with a Community Seconds® mortgage for purchase transactions. For properties underwritten manually, the LTV is determined by credit score and other factors. Cost of renovations is limited to 50 percent of the as-completed value of the property.

**Adjustable-rate mortgages:** ARMs are allowed, but they must conform to Fannie Mae's ARM requirements (see resources).

**Homeownership counseling:** Homeownership counseling is not required.

## POTENTIAL BENEFITS

The HomeStyle® Renovation Mortgage program attracts new and existing homeowners who want to invest in and improve their property in a way that may lead to an appreciation in value. Improvements benefit community banks because of the associated economic stability or growth in the areas they serve.

Compared to the HomeStyle® Renovation Mortgage program, conventional improvement loans may have higher interest rates with shorter repayment terms. The competitive terms of this program help lenders do more volume in improvement loans and attract borrowers who are interested in this product.

## POTENTIAL CHALLENGES

Special approval is required to deliver HomeStyle® Renovation loans to Fannie Mae. Lenders must have a way to access the program, whether through direct sales or a correspondent arrangement, as discussed in the introduction to this section. Depending on the arrangement, community banks may need to acquire or develop new expertise and infrastructure in order to participate.

Lenders may not sell or transfer servicing until the renovation work is complete.

## ALLOWABLE RENOVATION/REPAIRS COSTS:

Renovations must be permanently affixed and add value to the property. Sweat equity is not an allowable cost. Allowable costs include the following:

- Contract labor and materials.
- Property inspection, title update, and permit fees.
- Architectural, engineering, and other consultant fees.
- Other documented charges, such as fees for energy reports, appraisals, review of renovation plans, and fees charged for processing renovation draws.

## LENDER RENOVATION OVERSIGHT:

- The lender may not sell or transfer servicing until renovation work is complete.
- The lender must review the contractor hired by the borrower to determine if he or she is adequately qualified and experienced for the work being performed. The Contractor Profile Report (Form 1202) can be used to assist the lender in making this determination.

- Borrowers must have a construction contract with their contractor. Fannie Mae has a model Construction Contract (Form 3734) that may be used to document the construction contract between the borrower and the contractor.
- Plans and specifications must be prepared by a registered, licensed, or certified general contractor, renovation consultant, or architect. The plans and specifications should fully describe all work to be done and provide an indication of when various jobs or stages of completion will be scheduled (including both the start and job completion dates).
- For one-unit owner-occupied homes, borrowers may perform repairs themselves, but financing of these repairs may not exceed 10 percent of the as-completed value.
- Inspections are required for all work items that cost more than \$5,000.
- The reimbursement is limited to the cost of materials or the cost of properly documented contract labor (sweat equity may not be reimbursed).

**Loan-level price adjustments:** Loan-level price adjustments (LLPAs) are risk-based pricing adjustments that apply at the time of delivery only. The standard Fannie Mae LLPAs apply. When the mortgage is used to finance energy-related improvements, the lender may be eligible for an LLPA credit of \$250.

**Mortgage insurance:** The borrower must have hazard insurance in place to cover the estimated as-completed value of the home after renovation. Mortgage insurance, if required based on LTV, must be in place before closing, and coverage is based on the estimated value of the home after renovation.

**Debt-to-income ratio:** The debt-to-income (DTI) ratio cannot exceed 45 percent. In the event that the borrower has student loan debt and is not yet in repayment, as is the case for current students, Fannie Mae's

policy is to include 1 percent of the total student loan balance in the debt-to-income calculation. For example, if the student has a current debt of \$20,000, then Fannie Mae would add \$200 to the DTI calculation.

**Refinance:** Limited cash-out refinance is a valid use of this product, but cash may only be used to perform renovations; no cash may be disbursed to the borrower, unlike other Fannie Mae limited cash-out refinances. The lender must disburse all remaining funds to the borrower through one of two methods: 1) reduce the principal balance, or 2) make additional permanent, value-adding changes to the property.

**Reserves:** Up to 12 months of reserves are required depending on transaction type, credit score, LTV, and number of units in the property.

## ADDITIONAL INFORMATION

**Approval:** Special approval is required to deliver HomeStyle® Renovation Mortgage loans to Fannie Mae. Lenders must already be approved by Fannie Mae. The lender must have two years of direct experience originating and servicing renovation mortgages within the last five years. The lender must also have strong operational controls and sufficient financial capacity to cover the lender's recourse obligations during renovation. Fannie Mae provides a Contractor Profile Report (see resources) to ensure that the lender has sufficient information to determine that a contractor is qualified. The lender must set up and hold an interest-bearing custodial renovation fund account. An as-completed appraisal must be obtained. Renovation work must be completed no later than 12 months from the date the mortgage loan is delivered. The lender is responsible for monitoring the completion of the renovation work and managing disbursement of the funds.

**Training:** Fannie Mae offers a 30-minute online course on underwriting, servicing, and delivering HomeStyle® Renovation Mortgages.

**Workflow:** Lenders must review plans and manage renovation work throughout the process. In the preparatory phase, the borrower works with the contractor to submit work plans and specifications to the lender. The appraiser reviews the plans and specifications, and determines the as-completed value after improvements. The lender then uses the Maximum Mortgage Worksheet to determine the mortgage amount (see resources).

In the renovation phase, the loan is first closed and sold to Fannie Mae. Funds for renovation are placed in a custodial account. The contractor begins work and requests funding. The lender performs inspections to confirm that the work is completed, and gets lien waivers and title endorsements if required. The lender funds draw requests with two-party checks or direct funding.

Once construction is complete, the lender orders a final appraisal inspection, updates the title policy, and obtains a signed completion certificate, which the lender gives to Fannie Mae to have the recourse removed.

## Potential Benefits

- The HomeStyle® Renovation Mortgage program attracts new and existing homeowners who want to invest in and improve their property in a way that may lead to an appreciation in value. Improvements benefit community banks because of the associated economic stability or growth in the areas they serve.
- Compared to the HomeStyle® Renovation Mortgage program, conventional improvement loans may have higher interest rates with shorter repayment terms. The competitive terms of this program help lenders do more volume in improvement loans and attract borrowers who are interested in this product.
- A lender may deliver a HomeStyle® Renovation Mortgage as soon as it is closed; the renovation, repair, or rehabilitation does not need to have been completed when the mortgage is delivered. This eliminates the costs of holding the mortgage in a portfolio until the renovation is completed.
- A single closing mortgage (as opposed to one mortgage for the home's current value and one for the renovation improvements) saves work for lenders.
- The HomeStyle® Renovation program may allow community banks to expand their customer base in low- and moderate-income communities.
- Loans originated through the HomeStyle® Renovation Mortgage program may be positively considered under the Community Reinvestment Act, depending on the geography or incomes of the participating borrowers.

## Potential Challenges

- Special approval is required to deliver HomeStyle® Renovation loans to Fannie Mae. Lenders must have a way to access the program, whether through direct sales or a correspondent arrangement, as discussed in the introduction to this section. Depending on the arrangement, community banks may need to acquire or develop new expertise and infrastructure in order to participate.
- Lenders may not sell or transfer servicing until the renovation work is complete.
- Fannie Mae has full recourse to the lender throughout the renovation process. Fannie Mae may require the lender to re-purchase the loan if the borrower defaults before the work is completed, or if the lender's actions affect Fannie Mae's ability to obtain clear title to the property. Therefore, lenders retain substantial risk until the renovation is complete.
- Lenders must monitor the renovation progress, which requires expertise in areas such as construction draws and contractor management. The lender must maintain a copy of all the documentation that supports the renovation work, plans, and specifications, as-completed appraisal, renovation contract, renovation loan agreement, certificate of completion, title insurance endorsements or updates, and so on, in the individual mortgage file.

## SIMILAR PROGRAMS

- FHA 203(k) Rehabilitation Mortgage Insurance
- Freddie Mac Construction Conversion and Renovation Mortgage

## RESOURCES

### Loan-to-value ratios

<https://www.fanniemae.com/content/guide/selling/b5/3.2/02.html#LTV.20Ratios>

### Loan-level price adjustment

<https://www.fanniemae.com/content/pricing/llpa-matrix.pdf>

### Mortgage insurance pricing

<https://www.fanniemae.com/content/guide/selling/b7/1/02.html>

### Eligibility requirements

[https://www.fanniemae.com/content/eligibility\\_information/eligibility-matrix.pdf](https://www.fanniemae.com/content/eligibility_information/eligibility-matrix.pdf) (page 4)

### The Contractor Profile Report (Form 1202)

[https://www.fanniemae.com/content/guide\\_form/1202.pdf](https://www.fanniemae.com/content/guide_form/1202.pdf)

### Model construction contract (Form 3734)

[https://www.fanniemae.com/content/legal\\_form/3734.pdf](https://www.fanniemae.com/content/legal_form/3734.pdf)

### Maximum Mortgage Worksheet

<http://www.allregs.com/AO/Viewform.aspx?formid=00000492&formtype=agency>

### HomeStyle® Renovation Mortgages fact sheet

[https://www.fanniemae.com/content/fact\\_sheet/homestyle-renovation-factsheet.pdf](https://www.fanniemae.com/content/fact_sheet/homestyle-renovation-factsheet.pdf)

### Fannie Mae adjustable-rate mortgage requirements

<https://www.fanniemae.com/content/guide/selling/b2/1.3/02.html>

## Standard Manufactured Housing Mortgage

### Mitigates the risks of securing loans with manufactured homes

#### BACKGROUND AND PURPOSE

Fannie Mae invests in manufactured housing loans to serve its mission of expanding affordable housing by providing liquidity to a market segment that is crucial to many Americans. Manufactured housing offers a low-cost alternative to site-built homes for millions of American households, especially in high-cost and rural areas. A “manufactured home” for the purposes of Fannie Mae’s program is a dwelling that is built on a permanent chassis and installed on a permanent foundation system.

Manufactured housing is the country’s largest source of unsubsidized affordable housing. Lenders’ ability to sell loans secured by manufactured housing to Fannie Mae is an important contributor to extending access to credit to low-income households. Fannie Mae purchases mortgages secured by manufactured housing titled as real estate through approved lender partners.

Participating lenders should be familiar with the U.S. Department of Housing and Urban Development (HUD) codes for Manufactured Housing Construction and Safety and the laws pertaining to the treatment of manufactured housing as real property in their states. The borrower must have fee simple ownership of the land on which the manufactured home will be located. A mortgage secured by a manufactured home located on a leasehold estate is not eligible for sale to Fannie Mae. The home cannot have been previously permanently installed at another site. Singlewide home loans are only eligible for sale to Fannie Mae when located in a planned unit development or condominium that has been determined eligible.

PROGRAM NAME	Standard Manufactured Housing Mortgage
AGENCY	Fannie Mae
EXPIRATION DATE	Not Applicable
APPLICATIONS	No program-specific application is required. For information on becoming a Fannie Mae seller, see <a href="https://www.fanniemae.com/singlefamily/become-seller-servicer">https://www.fanniemae.com/singlefamily/become-seller-servicer</a>
WEB LINK	<a href="https://www.fanniemae.com/content/eligibility_information/manufactured-housing-guidelines.pdf">https://www.fanniemae.com/content/eligibility_information/manufactured-housing-guidelines.pdf</a>
CONTACT INFORMATION	<a href="mailto:Sellerservicer_application@fanniemae.com">Sellerservicer_application@fanniemae.com</a> (ask for a call-back in your email)
APPLICATION PERIOD	Continuous
GEOGRAPHIC SCOPE	National



## BORROWER CRITERIA

**Income limits:** This program has no income limits.

**Credit:** Fannie Mae's standard credit requirements apply (minimum credit score of 620). Fannie Mae uses trended data in its credit risk assessment including those loans submitted through Desktop Underwriter®. Trended credit data provides expanded information on a borrower's revolving account credit history including whether the borrower pays off the balance each month or makes the minimum payment due, and whether the borrower exceeds the credit limit.

**First-time homebuyers:** First-time homebuyer status confers no benefit.

**Occupancy and ownership of other properties:** The home must be owner occupied or a second home, not an investment property.

**Special populations:** There are no incentives for special populations.

**Special assistance for persons with disabilities:** There is no special assistance for people with disabilities.

**Manufactured home criteria:** Fannie Mae follows HUD's definition of manufactured homes. The manufactured home must be at least 12 feet wide and have a minimum of 600 square feet of gross living area. The dwelling must assume the characteristics of site-built housing, including being attached to a permanent foundation and connected to utilities. Single-wide manufactured homes, unless located in a Fannie Mae-approved subdivision, co-op, condominium, or planned unit development are not allowed. Homes located on leased land are not allowed. The mortgage loan must be secured by both the manufactured home and the land on which it is situated, and both the manufactured home and the land must be legally classified as real property, and secured by a single lien, under applicable state law. Fannie Mae treats modular, pre-fabricated, panelized, or sectional housing homes the same as site-built housing, not as manufactured housing.

## LOAN CRITERIA

**Loan limits:** FHFA publishes Fannie Mae's conforming loan limits annually. For 2016, a one-unit property has a loan limit ranging from \$417,000 to \$625,500 depending on geography. Certain high-cost areas are also taken into consideration ([www.fhfa.gov](http://www.fhfa.gov)).

**Loan-to-value limits:** For an owner-occupied primary residence, the maximum LTV is 95 percent for a fixed-rate mortgage (FRM) and 90 percent LTV for an adjustable-rate mortgage (ARM). For a second home, the maximum LTV is 90 percent for a FRM and 80 percent for an ARM. For a cash-out refinance, the LTV maximum is 65 percent for FRM and 60 percent for ARM, both with terms no longer than 20 years. Loans with Community Seconds® secured by manufactured housing are limited to the LTV ratios above.

## POTENTIAL BENEFITS

The guarantee provided by Fannie Mae under this program may help mitigate credit risk.

Standard Manufactured Housing Mortgage offers competitive pricing and terms. Loans originated may be positively considered under the Community Reinvestment Act, depending on the geography or incomes of the participating borrowers.

## POTENTIAL CHALLENGES

Fannie Mae will not purchase mortgages for manufactured housing in community land trusts.

Both the manufactured home and the land must be legally classified as real property under applicable state law. Many states still classify manufactured homes as personal property.

**Adjustable-rate mortgages:** 7/1 and 10/1 ARMs are allowed.

**Down payment sources:** No contribution of borrower personal funds is required.

**Homeownership counseling:** Homeownership counseling is not required.

**Loan-level price adjustments:** Loan-level price adjustments are risk-based pricing adjustments that apply at the time of delivery only. Standard Fannie Mae LLPAs apply. In addition, a 0.5 percent LPA applies for all Standard Manufactured Housing loans.

**Mortgage insurance:** The Standard Manufactured Housing Mortgage program follows Fannie Mae's insurance coverage requirements.

**Debt-to-income ratio:** Debt-to-income ratio is determined by Desktop Underwriter®. In the event that the borrower has student loan debt and is not yet in repayment, as is the case for current students, Fannie Mae's policy is to include 1 percent of the total student loan balance in the debt-to-income calculation. For example, if the student has a current debt of \$20,000, then Fannie Mae would add \$200 to the DTI calculation.

**Temporary interest rate buy downs:** Temporary interest rate buy downs are not allowed.

**Refinance:** Cash-out refinance is allowed for an owner-occupied primary residence, up to 65 percent LTV with a 20-year term. Limited cash-out refinance is also allowed.

**Trade equity from existing Manufactured Housing:**

Many manufactured home dealers offer equity-like contributions for home purchasers who trade in an old model of home to buy a new one, similar to an automobile trade-in program. The maximum equity contribution from the traded manufactured home is determined as follows:

- if the borrower has owned the traded manufactured home for 12 months or more before the application date, 90 percent of the retail value based on the NADA Manufactured Housing Appraisal Guide®, or if the borrower has owned the traded manufactured home for less than 12 months before the application date, the maximum equity contribution is the lesser of 90 percent of the retail value or the lowest price at which the

manufactured home was sold during that 12-month period; and

- any costs resulting from the removal of the manufactured home or any outstanding indebtedness secured by liens on the manufactured home must be deducted from the maximum equity contribution.

**Land equity:** If the borrower owns the land on which the manufactured home is being permanently attached, the land may be used as an equity contribution. In such event, the borrower's equity contribution is equal to:

- the current appraised value of the land if the borrower has owned the land for 12 months or more before the application date; or
- the lower of the current appraised value of the land or the purchase price of the land if the borrower has owned the land for less than 12 months.

**Underwriting:** Manufactured housing loans may only be underwritten using Desktop Underwriter®.

**Appraisal:** The appraisal must contain two similar manufactured homes and one site-built/modular home.

## Potential Benefits

- The guarantee provided by Fannie Mae under this program may help mitigate credit risk.
- Standard Manufactured Housing Mortgage offers competitive pricing and terms. Loans originated may be positively considered under the Community Reinvestment Act, depending on the geography or incomes of the participating borrowers.
- Standard Manufactured Housing Mortgage loans may allow community banks to expand their lending to low- and moderate-income borrowers, rural areas, and low- and moderate-income communities.
- Standard Manufactured Housing Mortgage loans may help community banks access the secondary market, providing greater liquidity to enhance their lending volume.

## Potential Challenges

- Fannie Mae will not purchase mortgages for manufactured housing in community land trusts.
- Both the manufactured home and the land must be legally classified as real property under applicable state law. Many states still classify manufactured homes as personal property.
- Lenders must have a way to access the program, whether through direct sales or a correspondent arrangement, as discussed in the introduction to this section. Depending on the arrangement, community banks may need to acquire or develop new expertise and infrastructure in order to participate.

## SIMILAR PROGRAMS

- Freddie Mac Manufactured Home Mortgage
- FHA Manufactured Home Loan Insurance

## RESOURCES

**NADA Manufactured Housing Appraisal Guide®** (there is a cost associated with the guide).

<http://www.nadaguides.com/Manufactured-Homes>

### Loan-level price adjustment

<https://www.fanniemae.com/content/pricing/llpa-matrix.pdf>

### Applicable state laws

[http://cfed.org/assets/pdfs/manufactured\\_housing/Titling\\_Homes\\_as\\_Real\\_Property.pdf](http://cfed.org/assets/pdfs/manufactured_housing/Titling_Homes_as_Real_Property.pdf)

### Mortgage insurance pricing

<https://www.fanniemae.com/content/guide/selling/b7/1/02.html>

## Refi Plus™/Home Affordable Refinance Program (HARP)

Helps responsible borrowers with little or no home equity refinance into more affordable mortgages

### BACKGROUND AND PURPOSE

The Refi Plus™/Home Affordable Refinance Program (HARP) helps borrowers with little or no equity in their homes refinance into more affordable mortgages. HARP targets borrowers with high loan-to-value (LTV) ratios and who have limited delinquencies over the 12 months before refinancing. Changes possible through HARP include lower interest rates, shorter loan terms, or changing from an adjustable-rate to a fixed-rate mortgage. HARP guidelines have been simplified and relaxed over the life of the program, meaning that even people who were previously turned down may now be eligible for HARP refinancing. For example, in 2011, the LTV ceiling was removed for fixed-rate mortgages, property appraisal requirements were waived in certain circumstances, certain risk fees for borrowers selecting shorter amortization terms were eliminated, and certain representations and warranties were waived. In 2013, the eligibility date was changed from the date the loan

was acquired by Fannie Mae to the date on the note, increasing the pool of eligible borrowers.

HARP was introduced in March 2009 to address the decline in home values that occurred over the previous few years. HARP has been extended several times; currently it is set to expire on December 31, 2016.

### BORROWER CRITERIA

**Original loan requirements:** The original loan must be guaranteed by Fannie Mae (e.g., no Freddie Mac, VA, FHA, or USDA loans).

**Age of loan:** The original loan must have been originated on or before May 31, 2009.

**Loan-to-value limits:** The original loan must be above 80 percent LTV, with no upper limit on LTV for fixed-rate mortgages.

PROGRAM NAME	Refi Plus™/Home Affordable Refinance Program (HARP)
AGENCY	Fannie Mae
EXPIRATION DATE	December 31, 2016
APPLICATIONS	No program-specific application is required. For information on becoming a Fannie Mae seller, see <a href="https://www.fanniemae.com/singlefamily/become-seller-servicer">https://www.fanniemae.com/singlefamily/become-seller-servicer</a>
WEB LINK	<a href="http://www.harp.gov">http://www.harp.gov</a>
CONTACT INFORMATION	<a href="mailto:Sellerservicer_application@fanniemae.com">Sellerservicer_application@fanniemae.com</a> (ask for a call-back in your email)
APPLICATION PERIOD	Continuous
GEOGRAPHIC SCOPE	National. HARP tracks the number of eligible loans by state and MSA. Information is available quarterly at <a href="http://www.harp.gov/Default.aspx?Page=363">http://www.harp.gov/Default.aspx?Page=363</a>

**Delinquency:** The borrower must not have made any late mortgage payments in the last six months and no more than one 30-day late payment in the last 12 months.

**Income limits:** The program has no income limits.

**Credit:** There is no minimum credit score; Fannie Mae waives its normal 620 minimum credit score.

**Occupancy and ownership of other properties:** HARP refinances may be performed on primary residences, investment properties, and one-unit second homes. Because the refinance represents Fannie Mae's existing risk, there is no requirement that occupancy stay the same.

**Special populations:** No benefit is conferred by being a member of a special population.

**Property type:** Single-family homes of one- to four-units and condominiums are allowed.

## LOAN CRITERIA

**Loan limits:** FHFA publishes Fannie Mae's conforming loan limits annually. For 2016, a one-unit property has a loan limit ranging from \$417,000 to \$625,500 depending on geography. Certain high-cost areas are also taken into consideration ([www.fhfa.gov](http://www.fhfa.gov)).

**Adjustable-rate mortgages:** Only fixed-rate mortgages are allowed.

**Loan-level price adjustments:** For primary residences with LTV ratios greater than 80 percent, Fannie Mae charges zero percent in fees on loans with terms less than 20 years, and 0.75 percent on loans with terms of more than 20 years.

**Mortgage insurance:** Where the original LTV of the existing loan was greater than 80 percent and mortgage insurance is still in force on the existing loan, then the lender must obtain mortgage insurance (MI) on the new mortgage. Lenders may obtain either the level of coverage in force on the existing mortgage or the current standard coverage. Lenders are encouraged to provide the lowest cost option for borrowers. If the mortgage being refinanced was less than 80 percent LTV or the original mortgage insurance policy was terminated, then no mortgage insurance coverage is required.

**Underwriting:** Re-underwriting is necessary if payments are increasing more than 20 percent. Fannie Mae recommends using Desktop Underwriter® (DU) where possible; manual underwriting is an option if circumstances warrant. Borrowers may use a new lender if DU is used.

**Fees:** For fixed-rate loans on primary residences with LTV ratios greater than 80 percent, Fannie Mae's fee is capped at zero percent on loans with terms less than 20 years and 0.75 percent on loans with terms of more than 20 years.

## POTENTIAL BENEFITS

Lenders do not need to perform new underwriting or review new appraisals in most cases.

Fannie Mae has reduced the fees it charges lenders that help borrowers refinance into less risky, shorter-term loans.

## POTENTIAL CHALLENGES

This program has several barriers to being a source of new business. Eligible properties are concentrated in a few markets. Also, if borrowers are going through a new lender, the lender will need to perform a new appraisal and underwriting, eliminating the processing efficiencies offered by the program.

If payments are going up by more than 20 percent, requalification is necessary, meaning more work for lenders assisting borrowers who are making substantial changes to their mortgages.

**Appraisal:** There are a number of exceptions to the usual reps and warrants when using HARP. A “property fieldwork waiver” may be offered by DU for a fee of \$75 that would allow the lender or borrower to estimate the home’s value rather than doing an appraisal. DU uses the property address to standardize estimates of home values. The lender, however, is responsible for compliance with all federal, state, and local laws, rules, and regulations, which may require appraisals.

## ADDITIONAL INFORMATION

The Home Affordable Modification Program (HAMP), not covered in this Guide, is meant for homeowners with a documented financial hardship. HARP is designed for borrowers who are not experiencing problems that could affect their ability to pay.

In marketing both the Fannie Mae and Freddie Mac versions of HARP to prospective users, lenders must give the same amount of advertising to both programs.

The refinance process must provide a benefit to the borrower, including:

- reduction in the borrower’s monthly principal and interest payment;
- reduction in the interest rate;
- reduction in the amortization term; or
- movement to a more stable product.

## Potential Benefits

- Lenders do not need to perform new underwriting or review new appraisals in most cases.
- Fannie Mae has reduced the fees it charges lenders that help borrowers refinance into less risky, shorter-term loans.
- Lenders now need less paperwork for income verification, and have the option of qualifying a borrower by documenting that the borrower has at least 12 months of mortgage payments in reserve.
- If a lender underwrites a HARP loan that it did not initially underwrite, the reps and warrants on the loan will sunset in 12 months rather than 36 months for other GSE products.

## Potential Challenges

- This program has several barriers to being a source of new business. Eligible properties are concentrated in a few markets. Also, if borrowers are going through a new lender, the lender will need to perform a new appraisal and underwriting, eliminating the processing efficiencies offered by the program.
- If payments are going up by more than 20 percent, requalification is necessary, meaning more work for lenders assisting borrowers who are making substantial changes to their mortgages.
- The program has been extended several times but is likely to terminate in 2016.
- A relatively limited pool of borrowers remains eligible for this program, as most borrowers who would benefit from a refinance have already done so.

## SIMILAR PROGRAMS

- Freddie Mac Relief Refinance<sup>SM</sup>
- FHA Streamline Refinance

## RESOURCES

Fannie Mae's loan-level price adjustment table

<https://www.fanniemae.com/content/pricing/llpa-matrix-refi-plus.pdf>

Frequently asked questions

<https://www.fanniemae.com/content/faq/harp-du-refi-plus-fqs.pdf>

To find whether the loan in question is eligible for HARP

<http://www.knowyouroptions.com/loanlookup>

## Freddie Mac

*We have included the most recent information available at the date of publication. At the end of each section, we include a list of resources with web links where you can find updates, as well as information about additional programs and other helpful information related to the subject.*

### OVERVIEW

Freddie Mac is a government-sponsored enterprise or GSE, created by the federal government to ensure access to home mortgage credit. Freddie Mac has a statutory mission to provide liquidity, stability, and affordability to the U.S. housing market. Freddie Mac does not make loans directly to homebuyers. The primary business of Freddie Mac is to purchase loans from lenders to replenish their supply of funds so they can make more mortgage loans to other borrowers. Freddie Mac then issues securities backed by pools of these mortgages that it sells to the capital markets. Freddie Mac guarantees to investors prompt payment of interest and principal on the mortgages backing the securities. Banks may sell loans to Freddie Mac individually or pooled with other loans, or directly or through intermediaries.

Freddie Mac funds its operations and loan loss reserves primarily through fees, which banks may pass through to borrowers. Freddie Mac charges both guarantee fees and loan-level price adjustments (LLPAs). LLPAs vary based on credit score, loan-to-value ratio, type of product used, and various other factors.

Freddie Mac is charged with affordable housing goals.<sup>12</sup> The goals were first implemented in 1993 and provide clear guidelines for low- and moderate-income (LMI) lending that the GSEs are required to facilitate. Freddie Mac operates special programs with underwriting standards that eliminate common barriers to low-income homeownership, such as high down payments, credit history issues, and the inability to get affordable fixed-rate financing on unusual property types that tend to be more affordable, such as manufactured homes and properties

with significant deferred maintenance. Freddie Mac also purchases loans secured by condominiums and properties in rural areas. Freddie Mac provides training to lender customers through its online Learning Center and has pioneered a multilingual Credit Smart online curriculum to help borrowers know their pre-purchase counseling options.

**This Guide covers the following Freddie Mac homeownership options:**

**HomePossible®:** Low down payment financing with discounted fees for creditworthy LMI borrowers.

**HomePossible Advantage<sup>SM</sup>:** Low down payment financing for first-time homebuyers.

**Construction Conversion and Renovation Mortgage:** Financing that covers property purchase and renovation/construction costs in a single mortgage.

**Manufactured Home Mortgage:** Financing for manufactured homes that uses the credit standards of the home mortgage market.

**Relief Refinance<sup>SM</sup>/Home Affordable Refinance Program (HARP):** Helps borrowers with good payment records who have little or no home equity refinance into more affordable mortgages.

<sup>12</sup> By statute, the Federal Housing Finance Agency is required to set annual housing goals for mortgages bought by Fannie Mae and Freddie Mac. The agency's goals for single-family housing include categories for mortgages for low-income families, very low-income families and families that live in low-income areas, and for refinancing mortgages. The multifamily goals include separate categories for mortgages on properties with five or more units affordable to low-income families and very low-income families.



## MORTGAGE INSURANCE AND LOAN LIMITS

Freddie Mac requires mortgage insurance (MI) on all loan amounts that exceed 80 percent of the property value. The amount of MI coverage required varies by transaction type and loan-to-value range. Freddie Mac offers standard and/or flexible MI pricing options for all loan products. Flexible mortgage insurance options include reduced MI and custom MI options.

Custom MI coverage options typically carry corresponding post-settlement delivery fees. Post-settlement delivery fees are risk-based pricing adjustments and vary by product type and loan-to-value ratio. Custom mortgage insurance delivery fees range from 0.375 percent to 0.75 percent. The table on the next page provides the level of MI coverage required for all first lien mortgages delivered to Freddie Mac.

The Federal Housing Finance Agency (FHFA) publishes Freddie Mac's conforming loan limits annually. Loan limits vary by number of units and by property location. Properties in areas defined as "high cost" are associated with higher loan limits. The current range for original principal balance for single-family, one-unit properties is \$417,000 to \$625,500 depending on the geography (two- to four-unit properties have correspondingly higher loan limits).

## DOING BUSINESS WITH FREDDIE MAC

### Benefits

Delivering mortgage loans to the secondary market through Freddie Mac can help community banks access sustainable affordable mortgage products and responsibly expand mortgage business opportunities while limiting long-term credit, prepayment, and interest rate risks.

### Delivery Options

There are several ways for banks to deliver loans to Freddie Mac. They can become direct Freddie Mac approved sellers or seller/servicers. They can generate loans for sale to Freddie Mac through the Independent Community Bankers of America's (ICBA) Correspondent Lending Program. They can act as a correspondent lender by originating and funding loans and then selling them to investors or aggregators that sell to Freddie Mac. Banks can also generate loans that are funded in the name of an investor and then sold to Freddie Mac. Lenders selling to Freddie Mac must make, directly or indirectly through a service provider, certain representations and warranties (reps and warrants).

### Delivering to Freddie Mac as a direct seller or seller/servicer

In order for banks to deliver loans directly to Freddie Mac, they must become approved sellers or seller/servicers. Freddie Mac approved sellers and seller/servicers are able to deliver a wide range of single-family mortgage products including purchases and refinances on one- to

## PROGRAMS IN THIS SECTION:

**HomePossible®:** Low down payment financing with discounted fees for creditworthy LMI borrowers.

**HomePossible Advantage<sup>SM</sup>:** Low down payment financing for first-time homebuyers.

**Construction Conversion and Renovation Mortgage:** Financing that covers property purchase and renovation/construction costs in a single mortgage.

**Manufactured Home Mortgage:** Financing for manufactured homes that uses the credit standards of the home mortgage market.

**Relief Refinance<sup>SM</sup>/Home Affordable Refinance Program (HARP):** Helps borrowers with good payment records who have little or no home equity refinance into more affordable mortgages.

## Freddie Mac Mortgage Insurance (MI) Coverage Requirements, 2016

STANDARD MI			REDUCED MI	CUSTOM MI
Product Types	<input type="checkbox"/> Fixed-rate mortgages <input type="checkbox"/> Adjustable-rate mortgages		<input type="checkbox"/> Fixed-rate, fully amortizing level payment mortgages <input type="checkbox"/> Amortizing over a period greater than 20 years	<input type="checkbox"/> Fixed-rate mortgages <input type="checkbox"/> Adjustable-rate mortgages
Loan-to-Value (LTV) and MI Coverage	For all mortgages, except 15- and 20-year fixed-rate mortgages: <input type="checkbox"/> >80% ≤85% requires 12% coverage <input type="checkbox"/> >85% ≤90% requires 25% coverage <input type="checkbox"/> >90% requires 30% coverage	For all 15- and 20-year fixed-rate mortgages: <input type="checkbox"/> >80% ≤85% requires 6% coverage <input type="checkbox"/> >85% ≤90% requires 12% coverage <input type="checkbox"/> >90% requires 25% coverage	<input type="checkbox"/> >85% ≤90% requires 17% coverage <input type="checkbox"/> >90% ≤95% requires 25% coverage	<input type="checkbox"/> >85% ≤90% requires 12% coverage <input type="checkbox"/> >90% ≤95% requires 18% coverage
Property Types	<input type="checkbox"/> One- to four-unit primary residence <input type="checkbox"/> One- to four-unit investment property <input type="checkbox"/> One-unit second home		One- to two-unit primary residence	One- to four-unit primary residence or second home
Transaction Types	<input type="checkbox"/> Purchase <input type="checkbox"/> No cash-out refinance <input type="checkbox"/> Cash-out refinance		<input type="checkbox"/> Purchase <input type="checkbox"/> No cash-out refinance of existing Freddie Mac-owned mortgages	<input type="checkbox"/> Purchase <input type="checkbox"/> No cash-out refinance <input type="checkbox"/> Cash-out refinance
Home Possible®	<input type="checkbox"/> >90% ≤95% requires 16% coverage <input type="checkbox"/> >85% ≤90% requires 12% coverage <input type="checkbox"/> >80% ≤85% requires 6% coverage		N/A	N/A
Home Possible Advantage <sup>SM</sup>	<input type="checkbox"/> >95% ≤97% requires 18% coverage <input type="checkbox"/> >90% ≤95% requires 16% coverage <input type="checkbox"/> >85% ≤90% requires 12% coverage <input type="checkbox"/> >80% ≤85% requires 6% coverage		N/A	N/A

four-unit properties through Home Possible® and Home Possible Advantage<sup>SM</sup>, and refinances through the Home Affordable Refinance Program. Both fixed-rate and adjustable-rate products are available.

Approved sellers or seller/servicers are also provided with training, technical support, and business development support. Once approved, lenders are assigned a Freddie Mac representative to help them navigate Freddie Mac's benefits, systems, and requirements.

### **Approval process to deliver as Freddie Mac direct seller or seller/servicer**

Lenders can be approved through Freddie Mac as a seller/servicer or as a seller only. Freddie Mac seller/servicers either service loans directly or contract with a Freddie Mac approved subservicer. If approved as a seller only, servicing rights must be transferred to a Freddie Mac approved servicer.

The seller/servicer approval process is estimated to take between four and six months from the time of application through final approval. Banks interested in becoming a Freddie Mac approved seller or seller/servicer must meet minimum financial standards including a minimum net worth of \$2.5 million plus 25 basis points of unpaid principal balance for total one- to four-unit residential mortgage loans serviced. Operational standards related to quality control and servicing apply as well.

### **Delivering to Freddie Mac through the ICBA Correspondent Lending Program**

ICBA's Correspondent Lending Program offers members access to various GSE and government loan program product options. ICBA member banks can originate Freddie Mac loan products and deliver them to ICBA, which acts as an aggregator for the loans, allowing the bank to take advantage of secondary market liquidity and GSE product offerings, while avoiding the operational requirements of becoming a direct Freddie Mac seller/servicer. ICBA offers "co-branded" servicing, and automated underwriting options.

### **Delivering to Freddie Mac through other third parties**

Smaller lenders often turn to investors or aggregators to help them carry out underwriting, funding, and/or secondary market sales functions. Correspondent lenders typically fund loans in their own names and

then sell them to investors, who in turn sell the loans into the secondary market. In some cases, the correspondent lenders handle the underwriting in-house. In others, the investor acts as the underwriter. Smaller lenders that are interested in originating loans but do not have the internal capacity to either underwrite or fund the loans can also work with investors to carry out the origination function while looking to the investor to underwrite and fund the loans in the name of the investor.

Lenders can work with sponsoring Freddie Mac approved seller/servicers to originate Freddie Mac loan products. Originating loans for or selling loans to a Freddie Mac approved aggregator can be useful to banks that do not meet minimum standards and/or do not have the internal capacity to become approved by Freddie Mac. However, many aggregators and/or investors administer their own underwriting guidelines or overlays, which may be more restrictive than standard Freddie Mac program requirements. Final underwriting decisions, standards for delivery, and fees for participation are set by each investor.

## **SYSTEM REQUIREMENTS AND QUALITY CONTROL**

Freddie Mac offers the Loan Prospector® (LP) for third-party originators (TPOs), which is a portal system that provides product guidelines and preliminary automated underwriting to lenders working with investors. Lenders can underwrite loans manually or electronically with the use of LP. Loan Prospector® provides an assessment of a loan's eligibility for sale and delivery to Freddie Mac. Lenders can access Loan Prospector® through an interface on [FreddieMac.com](https://freddiemac.com), a third-party vendor, or direct integration with a lender's proprietary loan origination system. There is no charge for Loan Prospector®.

Freddie Mac sellers are also required to have a quality control program in place that includes pre-funding and post funding quality control reviews, covers the full scope of the mortgage origination business of the bank, and includes an active role by senior management in the effective resolution of gaps discovered in the origination process.

## RESOURCES

### Freddie Mac eligibility requirements

<https://ww3.freddiemac.com/ds1/singlefamily/beourcustomer.nsf/frmEligReq?OpenForm>

### Freddie Mac application process

<http://www.freddiemac.com/singlefamily/doingbusiness/>

**Freddie Mac sales and delivery information:** Information about pricing, sales executions, and delivery and funding requirements.

<http://www.freddiemac.com/singlefamily/sell/>

**Freddie Mac's Learning Center:** Ongoing training opportunities.

<http://www.freddiemac.com/learn/>

**Freddie Mac's Single Family Seller/Service Guide:** Rules and regulations covering all aspects of selling loans to Freddie Mac including lender approval, loan origination, loan delivery, quality control, and servicing requirements.

<http://www.freddiemac.com/singlefamily/guide/>

**ICBA Correspondent Lending Program:** Program description and available products list.

<http://www.icbams.com/>

**Freddie Mac participating wholesale lenders list:** List of Freddie Mac approved aggregators.

<http://www.loanprospector.com/about/wholesaler.html>

**Freddie Mac Community Lender Resource Center**

[http://www.freddiemac.com/singlefamily/community\\_lenders/](http://www.freddiemac.com/singlefamily/community_lenders/)

### Using Freddie Mac's Home Possible® Product

*The FDIC talked with community bankers about their participation in the Freddie Mac's Home Possible® and other mortgage products. The following are excerpts from these discussions.*

Freddie Mac Home Possible® mortgages include features that are designed to serve low- and moderate-income borrowers, such as down payments as low as 5 percent (3 percent for Home Possible Advantage<sup>SM</sup>), fixed-rates, reduced mortgage insurance coverage levels compared to previous Freddie Mac products.

#### Working with Freddie Mac

A banker from the west coast explained that his bank has used Freddie Mac products since 1988. Another banker from the east coast said that her bank has used Freddie Mac products for over 20 years.

Both banks are using Freddie Mac's Home Possible® mortgages because the 15-year or 30-year fixed rate conventional loan product is popular with applicants. One banker said, "Using Freddie Mac products enable us to offer competitive rates and terms for our borrowers. Our staff and underwriters have a good understanding of the Freddie Mac's guidelines, which helps us to sell loans without any major issues during the process."

Both bankers stated that training is done on all products when new staff is hired. One bank representative pointed out that the general product training takes about two weeks, but developing a full understanding of the product may take three or more months.

Both banks are approved seller/servicers with Freddie Mac, delivering loans directly to the company. They estimated that the seller/servicer approval process takes between four and six months from the time of application through final approval.

#### Benefits of Offering Home Possible® Mortgages

One banker said that Freddie Mac's products offer another way to help customers become homeowners and enables the bank to deliver loans into the secondary market. The Home Possible® maximum loan-to-value ratio is 95 percent, and that assists borrowers with good credit, but limited funds for a down payment, to buy a home.

Another representative said that his bank takes advantage of Freddie Mac's program allowing up to 105 percent combined loan-to-value ratio by pairing it with subordinate liens for down payment assistance, closing costs, or renovations. The banker noted that, "We offer a down payment assistance program that allows the use of non-traditional payment history, such as rent or utility receipts to demonstrate good credit. There are no rate lock-in fees and we even waive the monthly maintenance charge if the borrower has a personal checking account with the bank. Combining this product with Home Possible® allows us to better serve our customers with limited funds or a less established credit history."

#### Challenges of Offering Home Possible® Mortgages

One bank representative stated that the bank's underwriting guidelines are sometimes more flexible than Freddie Mac's guidelines, which means that the bank keeps some mortgages in portfolio. Meeting the Freddie Mac rate lock and other timelines can also be occasionally challenging, said another bank representative. One bank representative said that loan level price adjustments (LLPAs), which are risk-based pricing

adjustments that vary based on a number of factors and affect borrower costs, can also be a challenge to administer.

### **Advice to Other Bankers Considering Freddie Mac**

When asked what advice they would give to other bankers considering offering Freddie Mac's Home Possible® product, one banker stated, "It is very important that bankers understand Freddie Mac's underwriting guidelines, rate-lock process, and selling system for post-closing files."

The bankers also noted that because Freddie Mac offers long-term fixed rate mortgages, Home Possible® is a tool they use for low- and moderate-income borrowers who need lower down payments and smaller monthly payments.

## Home Possible®

### Low down payment financing with discounted fees for creditworthy low- and moderate-income borrowers

#### BACKGROUND AND PURPOSE

Freddie Mac Home Possible® mortgages provide lenders with a way to reach rapidly growing markets of first-time homebuyers and low- and moderate-income (LMI) borrowers. Features of Home Possible® include low down payments, fixed-rate mortgages, reduced mortgage insurance coverage levels, flexible closing cost funding options, and no cash-out refinancing. Despite offering low down payments, Home Possible® mortgages include risk management features to promote responsible lending.

#### BORROWER CRITERIA

**Income limits:** The borrowers' annual income cannot exceed 100 percent of the area median income (AMI) or a higher percentage in designated high-cost areas. No income limits apply if the mortgaged premises are located in an underserved area.

**Credit:** Credit scores as low as 660 for purchase transactions and 680 for no cash-out refinances will be considered. Loans where none of the borrowers has a usable credit score may be manually underwritten if the loan is not a Home Possible Advantage<sup>SM</sup> loan or secured by a manufactured home.

**First-time homebuyers:** A borrower with no ownership interest in a residential property in the last three years is considered a first-time homebuyer. A displaced homemaker or single parent whose only ownership interest in the last three years has been a joint ownership in the marital residence is also considered a first-time homebuyer. First-time homebuyers may receive a loan-to-value (LTV) advantage (a maximum of 97 LTV rather than a 95 LTV) by using Home Possible Advantage<sup>SM</sup>, a program geared exclusively for first-time homebuyers, instead of Home Possible®.

PROGRAM NAME	Home Possible®
AGENCY	Freddie Mac
EXPIRATION DATE	Not Applicable
APPLICATIONS	No program-specific application is required. For information on becoming a Freddie Mac seller, see <a href="http://www.freddiemac.com/singlefamily/doingbusiness/">http://www.freddiemac.com/singlefamily/doingbusiness/</a>
WEB LINK	<a href="http://www.freddiemac.com/homepossible/hp.html">http://www.freddiemac.com/homepossible/hp.html</a>
CONTACT INFORMATION	<a href="mailto:institutional_eligibility@freddiemac.com">institutional_eligibility@freddiemac.com</a> (ask for a call back in your email)
APPLICATION PERIOD	Continuous
GEOGRAPHIC SCOPE	National

**Occupancy and ownership of other properties:** The property must be all borrowers' primary residence. Ownership of other properties is not allowed.

**Special populations:** Special population status does not confer an advantage.

**Property type:** Manufactured housing and one- to four-unit properties are eligible for Home Possible®; fee simple homes, condominiums, co-ops, and planned unit developments are eligible property types.

## LOAN CRITERIA

**Loan limits:** FHFA publishes Freddie Mac's conforming loan limits annually. For 2016, a one-unit property has a loan limit ranging from \$417,000 to \$625,500 depending on geography. Certain high-cost areas are also taken into consideration ([www.fhfa.gov](http://www.fhfa.gov)).

**Loan-to-value limits:** The Home Possible® maximum LTV is 95 percent, or up to 105 percent combined loan-to-value ratio (CLTV) with Affordable Seconds®, which are subordinate liens for down payment assistance, closing costs, or renovations. Affordable Seconds® funds must be provided by a unit of state or local government, housing finance agency, nonprofit organization, regional Federal Home Loan Bank under one of its affordable housing programs, or employer. Affordable Seconds® with deferred payments for five years are considered gifts in the automated underwriting system. Secondary financing of any type, including Affordable Seconds® and USDA's Rural Housing Service Leveraged Seconds, is permitted, but only Affordable Seconds® allows an LTV to 105.

**Adjustable-rate mortgages:** 5/1, 7/1, or 10/1 ARMs with an original maturity not greater than 30 years are allowed on a one- to two-unit property; 7/1 and 10/1 ARMs are allowed on manufactured homes. ARMs are not allowed when using Home Possible Advantage<sup>SM</sup>.

**Down payment sources:** No minimum contribution from personal funds is required for one-unit properties; 3 percent is required for two- to four-unit properties, and 5 percent is required for manufactured homes.

**Homeownership counseling:** Homeownership education is required for at least one borrower if all borrowers are first-time homebuyers. Internet-based homeownership education programs developed by mortgage insurance companies are allowed, such as Freddie Mac's CreditSmart® program. Lenders must provide (at no cost to the borrower) early delinquency counseling to all borrowers who experience problems meeting their mortgage obligations. For two- to four-unit transactions, at least one borrower must complete a landlord education program.

## POTENTIAL BENEFITS

Home Possible® may allow community banks to expand their customer base in low- and moderate-income communities.

Home Possible® may help community banks access the secondary market, providing greater liquidity to enhance their lending volume.

## POTENTIAL CHALLENGES

Lenders must have a way to access the program, whether through direct sales or a correspondent arrangement. Depending on the arrangement, community banks may need to acquire or develop new expertise and infrastructure in order to participate.

A limited pool of borrowers is eligible for this program due to specific income limits and limited flexibilities for borrowers with nontraditional credit.



**Mortgage insurance:** The minimum required amount is 16 percent coverage for 90-95 percent LTV; 12 percent coverage for 85-90 percent LTV; 6 percent for 80-85 percent LTV; and zero percent for below 80 percent LTV.

**Debt-to-income ratio:** Qualifying debt-to-income ratios are determined by Loan Prospector®, Freddie Mac's automated underwriting tool. This ratio can be as high as 45 percent for manually underwritten mortgages. In the event that the borrower has student loan debt and is not yet in repayment, as is the case for current students, Freddie Mac's policy is to include 1 percent of the total student loan balance in the debt-to-income calculation. For example, if the student has a current debt of \$20,000, then Freddie Mac would add an estimated \$200 monthly payment to the DTI calculation.

**Temporary interest rate buy downs:** Temporary interest rate buy downs are permitted for one- to two-unit properties other than manufactured homes. For fixed-rate mortgages, the borrower must be qualified using monthly payments calculated at the higher of the note rate or the fully indexed rate. For ARMs, the borrower must be qualified using monthly payments calculated in accordance with Freddie Mac's underwriting guidance (Guide Section 30.16 and A34.5).

**Refinance:** No cash-out refinance is allowed.

**Delivery fee:** The Home Possible® delivery fee is 0.75 percent for all purchases, 1.5 percent for all refinances, and 0.5 percent for secondary financing other than Affordable Seconds®.

**Reserve requirements:** No reserves are required for one-unit properties; two months are required for two- to four-unit properties.

## Potential Benefits

- Home Possible® may allow community banks to expand their customer base in low- and moderate-income communities.
- Home Possible® may help community banks access the secondary market, providing greater liquidity to enhance their lending volume.
- The guarantee provided by Freddie Mac under this program may help reduce exposure to credit risk.

- Home Possible® offers competitive pricing and terms.
- Loans originated through Home Possible® may be favorably considered during the bank's Community Reinvestment Act evaluation, depending on the geography or incomes of the participating borrowers.

## Potential Challenges

- Lenders must have a way to access the program, whether through direct sales or a correspondent arrangement, as discussed in the introduction to this section. Depending on the arrangement, community banks may need to acquire or develop new expertise and infrastructure in order to participate.
- A limited pool of borrowers is eligible for this program due to specific income limits and limited flexibilities for borrowers with nontraditional credit.

## SIMILAR PROGRAMS

- Fannie Mae HomeReady™
- FHA 203(b) Mortgage Insurance Program
- Freddie Mac Home Possible Advantage<sup>SM</sup>

## RESOURCES

Underwriting guidance on Home Possible® Chapter A 34

<http://www.allregs.com/tpl/Viewform.aspx?formid=00046790&formtype=agency>

Designated high-cost areas

<http://ww3.freddiemac.com/ds2/sell/affgold.nsf/vwFormsByKey/IER?OpenDocument>

Low-income and disaster area definitions and data

<http://www.fhfa.gov/DataTools/Downloads/Pages/Underserved-Areas-Data.aspx>

Affordable Seconds® Program

<http://www.freddiemac.com/singlefamily/expmkts/affsec.html>

CreditSmart® Program

<http://www.freddiemac.com/creditsmart/tutorial.html>

Delivery fees

<http://www.freddiemac.com/singlefamily/pdf/ex19.pdf>

## Home Possible Advantage<sup>SM</sup>

Very similar to the Home Possible<sup>®</sup> Program with lower down payments for first-time homebuyers

### BACKGROUND AND PURPOSE

Freddie Mac Home Possible Advantage<sup>SM</sup> mortgages provide lenders with an easy and convenient way to reach rapidly growing markets of low- and moderate-income (LMI) first-time homebuyers. Features of Home Possible Advantage<sup>SM</sup> include low down payments, stable monthly payments through fixed-rate mortgages, reduced mortgage insurance (MI) coverage levels, flexible closing cost funding options, and no cash-out refinancing. Home Possible Advantage<sup>SM</sup> offers first-time homebuyers a higher loan-to-value (LTV) ratio if they meet additional requirements, such as homeownership counseling.

### BORROWER CRITERIA

**Income limits:** The borrowers' annual income cannot exceed 100 percent of the area median income or a higher percentage in designated high-cost areas. No

income limits apply if the mortgaged premises are located in an underserved area.

**Credit:** Credit scores as low as 660 for one-unit, fixed-rate mortgage purchase transactions, and 680 for one-unit, fixed-rate, no cash-out refinances. Nontraditional credit is not allowed when using Home Possible Advantage<sup>SM</sup> but is allowed under Home Possible<sup>®</sup>.

**First-time homebuyers:** Only first-time homebuyers may participate in this program. A borrower with no ownership interest in a residential property in the last three years is considered a first-time homebuyer. A displaced homemaker or single parent whose only ownership interest in the last three years has been a joint ownership in the marital residence is also considered a first-time homebuyer.

PROGRAM NAME	Home Possible Advantage <sup>SM</sup>
AGENCY	Freddie Mac
EXPIRATION DATE	Not Applicable
APPLICATIONS	No program-specific application is required. For information on becoming a Freddie Mac seller, see <a href="http://www.freddiemac.com/singlefamily/doingbusiness/">http://www.freddiemac.com/singlefamily/doingbusiness/</a>
WEB LINK	<a href="http://www.freddiemac.com/homepossible/hp.html">http://www.freddiemac.com/homepossible/hp.html</a>
CONTACT INFORMATION	<a href="mailto:institutional_eligibility@freddiemac.com">institutional_eligibility@freddiemac.com</a> (ask for a call back in your email)
APPLICATION PERIOD	Continuous
GEOGRAPHIC SCOPE	National

**Occupancy and ownership of other properties:** The property secured by the Home Possible Advantage<sup>SM</sup> mortgage must be all borrowers' primary residence. Ownership of other properties is not allowed.

**Special populations:** Special population status does not confer an advantage.

**Property type:** One-unit properties only. Fee-simple homes, condominiums, co-ops, and planned unit developments are eligible property types. Manufactured housing that is eligible for Home Possible<sup>®</sup> is not eligible.

## LOAN CRITERIA

**Loan limits:** FHFA publishes Freddie Mac's conforming loan limits annually. For 2016, a one-unit property has a loan limit ranging from \$417,000 to \$625,500 depending on geography. Certain high-cost areas are also taken into consideration ([www.fhfa.gov](http://www.fhfa.gov)).

**Loan-to-value limits:** The Home Possible Advantage<sup>SM</sup> maximum LTV is 97 percent or up to 105 percent combined loan-to-value (CLTV) with an Affordable Seconds<sup>®</sup> mortgage. Affordable Seconds<sup>®</sup> are subordinate liens for down payment assistance, closing costs, or renovations. Affordable Seconds<sup>®</sup> funds must be provided by a unit of state or local government, housing finance agency, nonprofit organization, regional Federal Home Loan Bank under one of its affordable housing programs, or employer. Affordable Seconds<sup>®</sup> with deferred payments for five years are considered gifts in the automated underwriting system. USDA's Rural Housing Service Leveraged Seconds are not permitted.

**Adjustable-rate mortgages:** ARMs are not allowed when using Home Possible Advantage<sup>SM</sup>.

**Down payment sources:** No minimum contribution from personal funds is required.

**Reserve requirements:** No reserves are required.

**Homeownership counseling:** Homeownership education is required for at least one borrower if all borrowers are first-time homebuyers. Internet-based homeownership education programs, such as Freddie Mac's CreditSmart<sup>®</sup> program, are allowed. Lenders must provide (at no cost to the borrower) early delinquency counseling to all borrowers who experience problems meeting their mortgage obligations.

**Mortgage insurance:** Home Possible Advantage<sup>SM</sup> 95-97 percent LTV requires minimum MI coverage of 18 percent.

**Debt-to-income ratio:** Qualifying debt-to-income ratios are determined by Loan Prospector<sup>®</sup>, Freddie Mac's automated underwriting system; for manually underwritten mortgages, there is a 43 percent maximum.

## POTENTIAL BENEFITS

The guarantee provided by Freddie Mac under this program may help reduce exposure to credit risk.

Home Possible Advantage<sup>SM</sup> offers competitive pricing and terms.

## POTENTIAL CHALLENGES

Lenders must have a way to access the program, whether through direct sales or a correspondent arrangement. Depending on the arrangement, community banks may need to acquire or develop new expertise and infrastructure in order to participate.

A limited pool of borrowers is eligible for this program due to specific income limits and other limited flexibilities for borrower and loan characteristics.

In the event the borrower has student loan debt and is not yet in repayment, as is the case for current students, Freddie Mac's policy is to include 1 percent of the total student loan balance in the debt-to-income calculation. For example, if the student has a current debt of \$20,000, then Freddie Mac would add \$200 to the DTI calculation.

**Temporary interest rate buy downs:** Temporary interest rate buy downs are permitted. For fixed-rate mortgages, the borrower must be qualified using monthly payments calculated at the note rate.

**Refinance:** No cash-out refinance is allowed.

**Delivery fee:** Home Possible Advantage<sup>SM</sup> fees vary with the borrower's credit score.

### Potential Benefits

- The guarantee provided by Freddie Mac under this program may help reduce exposure to credit risk.
- Home Possible Advantage<sup>SM</sup> offers competitive pricing and terms.
- Loans originated through Home Possible Advantage<sup>SM</sup> may be positively considered under the Community Reinvestment Act, depending on the geography or incomes of the participating borrowers.
- Home Possible Advantage<sup>SM</sup> may allow community banks to expand their customer base in low- and moderate-income communities.
- Home Possible Advantage<sup>SM</sup> may help community banks access the secondary market, providing greater liquidity to enhance their lending volume.

### Potential Challenges

- Lenders must have a way to access the program, whether through direct sales or a correspondent arrangement, as discussed in the introduction to this section. Depending on the arrangement, community banks may need to acquire or develop new expertise and infrastructure in order to participate.
- A limited pool of borrowers is eligible for this program due to specific income limits and other limited flexibilities for borrower and loan characteristics.

### Similar Programs

- Fannie Mae Standard 97 Percent Loan-to-Value Mortgage
- FHA 203(b) Mortgage Insurance Program
- Freddie Mac Home Possible®

## RESOURCES

### Underwriting guidance Chapter A 34

<http://www.allregs.com/tpl/Viewform.aspx?formid=00046790&formtype=agency>

### Designated high-cost areas

<http://ww3.freddiemac.com/ds2/sell/affgold.nsf/vwFormsByKey/IER?OpenDocument>

### Low-income and disaster area definitions and data

<http://www.fhfa.gov/DataTools/Downloads/Pages/Underserved-Areas-Data.aspx>

### CreditSmart® Program

<http://www.freddiemac.com/creditsmart/tutorial.html>

### Delivery fees

<http://www.freddiemac.com/singlefamily/pdf/ex19.pdf>

## Construction Conversion and Renovation Mortgage

Financing that covers purchase and renovation/construction costs in a single loan closing

### BACKGROUND AND PURPOSE

A Construction Conversion Mortgage provides permanent financing that replaces the interim construction financing on a new site-built home or a new manufactured home that will be permanently affixed to the property. A Renovation Mortgage is used to purchase or refinance land with an existing site-built home and repair, restore, rehabilitate, or renovate the site-built home.

Freddie Mac allows any of its other mortgage products to be originated for renovation and construction purposes. Construction Conversion and Renovation Mortgages must conform to the requirements of one of Freddie Mac's other mortgage programs: Home Possible®; regular 15-, 20-, or 30-year fixed mortgage; most adjustable-rate mortgages (ARMs); super conforming mortgage (mortgages originated using higher maximum loan limits permitted in designated high-cost

areas); and manufactured housing (construction conversion only).

### BORROWER CRITERIA

**Income limits:** Income limits apply if the mortgage uses Home Possible® or Home Possible Advantage<sup>SM</sup>.

**Credit:** Any of Freddie Mac's mortgage products may be delivered as a renovation mortgage and the applicable credit limits apply (credit scores as low as 660).

**First-time homebuyers:** For Home Possible® and Home Possible Advantage<sup>SM</sup>, when all the borrowers are first-time homebuyers, at least one qualifying borrower must participate in a homeownership education program before the note sale or effective date of permanent financing for Construction Conversion and Renovation Mortgages.

PROGRAM NAME	Construction Conversion and Renovation Mortgage
AGENCY	Freddie Mac
EXPIRATION DATE	Not Applicable
APPLICATIONS	No program-specific application is required. For information on becoming a Freddie Mac seller, see <a href="http://www.freddiemac.com/singlefamily/doingbusiness/">http://www.freddiemac.com/singlefamily/doingbusiness/</a>
WEB LINK	Single-Family Seller/Servicer Guide (Guide) Chapter K33 <a href="http://www.freddiemac.com/singlefamily/factsheets/sell/renovation.html">http://www.freddiemac.com/singlefamily/factsheets/sell/renovation.html</a>
CONTACT INFORMATION	<a href="mailto:institutional_eligibility@freddiemac.com">institutional_eligibility@freddiemac.com</a> (ask for a call back in your email)
APPLICATION PERIOD	Continuous
GEOGRAPHIC SCOPE	National

**Occupancy and ownership of other properties:** Except for Home Possible® and Home Possible Advantage<sup>SM</sup>, ownership of other properties is allowed, and primary residences, second homes, and investment properties are all allowed.

**Special populations:** Special population status confers no benefit.

**Special assistance for persons with disabilities:** Retrofitting a home for use by a person with a disability is an eligible use of this program.

**Property type:** One- to four-unit site-built homes are allowed. If secured by a manufactured home, only a construction conversion loan to cover the costs associated with permanent installation is allowed. This program may not be used to make a single payment to a builder or assume an existing mortgage, for instance if a builder has built on speculation.

## LOAN CRITERIA

**Loan limits:** FHFA publishes Freddie Mac's conforming loan limits annually. For 2016, a one-unit property has a loan limit ranging from \$417,000 to \$625,500 depending on geography. Certain high-cost areas are also taken into consideration ([www.fhfa.gov](http://www.fhfa.gov)).

**Loan-to-value limits:** The value is the lesser of the purchase price plus construction/renovation costs or the appraised value as completed. The LTV limits for the underlying mortgage program are applicable.

**Adjustable-rate mortgages:** All standard ARM products are allowed except that Home Possible Advantage<sup>SM</sup> may only be a fixed-rate mortgage. For Home Possible®: 5/1, 7/1, or 10/1 ARMs with an original maturity not greater than 30 years are allowed on a one- to two-unit property. For manufactured homes, 7/1 and 10/1 ARMs are allowed.

**Underwriting:** The loan may be underwritten manually or in Loan Prospector®, Freddie Mac's automated underwriting system.

Documentation may be integrated with interim financing documentation (one closing), separate (two closings), or modified (two closings with a modification agreement).

### The mortgage file must contain the following:

- evidence to support that the mortgage is a Construction Conversion or Renovation Mortgage;
- sufficient documentation to validate actual cost to construct or renovate (e.g., purchase contracts, plans and specifications, receipts, invoices, lien waivers, etc.);
- document showing lender's calculation of the purchase price and/or cost to construct;
- all settlement/closing disclosure statement forms or other mortgage closing statements for interim construction financing and permanent financing;

## POTENTIAL BENEFITS

Freddie Mac does not require special approval to originate renovation mortgages or additional experience with reviewing contractor work plans, construction draws, or appraisals. This product requires less contractor oversight. Freddie Mac does not have put-back provisions.

Cash-out refinance is permitted, which increases the borrower's flexibility to cover repairs outside of the scope of the interim construction financing.

## POTENTIAL CHALLENGES

The loan to be sold to Freddie Mac cannot be closed until construction is finished, so there is the potential for risk in the transaction related to the interim construction financing.

To effectively market and use this product, lenders must partner with an entity that offers interim construction financing. In order to become an interim construction financing lender, additional expertise is needed.



- for a mortgage secured by a manufactured home, the manufacturer's invoice and the manufactured home purchase agreement; and
- appropriate documentation to verify the acquisition and transfer of ownership of the land if the borrower acquired the land as a gift or by inheritance.

The loan may need to be re-underwritten if property value, construction scope of work, schedule, or other substantive changes occurs during the term of interim construction financing and renovation work.

**Delivery fee:** The applicable delivery fee(s) is assessed based on the characteristics of the mortgage. There is no additional delivery fee for Construction Conversion and Renovation Mortgages.

**Refinance:** Refinancing is an allowable use of this product. If the borrower is the owner of record of the land (or is the lessee of the leasehold estate or if a site-built home is on a leasehold estate) before the closing of the interim construction financing, then the loan is a refinance transaction. Special purpose cash-out refinances (proceeds used to buy out the equity of a co-owner) are not eligible. Cash-out refinances are not eligible for manufactured homes. An amount used to pay off an unsecured lien or reimburse the borrower for construction costs paid outside of the secured interim construction financing is considered cash out if it is more than \$2,000 or 2 percent of the loan amount, whichever is less.

**Completion status before delivery:** All improvements must be fully completed before the sale of the mortgage to Freddie Mac unless a completion escrow account has been established. The installation of a manufactured home must be fully completed. The lender must provide Freddie Mac with evidence that the construction is complete.

## Potential Benefits

- Freddie Mac does not require special approval to originate renovation mortgages or additional experience with reviewing contractor work plans, construction draws, or appraisals. This product requires less contractor oversight. Freddie Mac does not have put-back provisions.
- Cash-out refinance is permitted, which increases the borrower's flexibility to cover repairs outside of the scope of the interim construction financing.
- Community banks can market this product to existing customers who are homeowners.
- This product can be used for site-built homes on leasehold estates, making this product useable by community land trusts.

## Potential Challenges

- The loan to be sold to Freddie Mac cannot be closed until construction is finished, so there is the potential for risk in the transaction related to the interim construction financing.
- To effectively market and use this product, lenders must partner with an entity that offers interim construction financing. In order to become an interim construction financing lender, additional expertise is needed.
- Renovation loans are likely to be more time intensive than purchase-only transactions because of the risk of changes to the scope of work or property value requiring re-underwriting.

## SIMILAR PROGRAMS

- Fannie Mae HomeStyle® Renovation Loan
- FHA 203(k) Rehabilitation Mortgage Insurance
- FHA Property Improvement Loan Insurance (Title I)

## RESOURCES

Construction Conversion and Renovation Mortgage summary

<http://www.freddiemac.com/learn/pdfs/uw/construction.pdf>

How to Enter Data for Construction Conversion and Renovation Mortgages

[http://www.freddiemac.com/learn/pdfs/uw/mnch\\_fun\\_guide.pdf](http://www.freddiemac.com/learn/pdfs/uw/mnch_fun_guide.pdf)

Training Course for Construction Conversion and Renovation Mortgages

[http://www.freddiemac.com/ontrack/html/LearningCenter/ClassDescription.jsp?crsNum=CC\\_RM](http://www.freddiemac.com/ontrack/html/LearningCenter/ClassDescription.jsp?crsNum=CC_RM)

Delivery fees

<http://www.freddiemac.com/singlefamily/pdf/ex19.pdf>

## Manufactured Home Mortgage

Financing for manufactured homes that uses the credit standards of the home mortgage market rather than the movable property loan market

### BACKGROUND AND PURPOSE

Today's manufactured housing market serves over 17 million Americans and provides affordable homeownership for many. New manufactured homes in 2014 cost on average less than half of standard site-built homes per square foot, according to the Corporation for Enterprise Development. Freddie Mac's manufactured home mortgages help qualified borrowers buy homes they can both afford and maintain.

Lenders should be familiar with the U.S. Department of Housing and Urban Development (HUD) codes for Manufactured Housing Construction and Safety and the laws pertaining to the treatment of manufactured housing as real property in their states. Land must be owned by the borrower in fee simple. A mortgage secured by a manufactured home located on a leasehold estate is not eligible for sale to Freddie Mac. The home cannot have been previously permanently

installed at another site. Singlewide homes are only eligible for sale to Freddie Mac when located in a planned unit development or condominium that has been determined eligible.

### BORROWER CRITERIA

**Income limits:** Income limits follow the requirements of the mortgage program used. For example, for HomePossible®, the borrowers' annual income cannot exceed 100 percent of the area median income (AMI) or a higher percentage in designated high-cost areas; no income limits apply if the mortgaged premises are located in an underserved area.

**Credit:** Freddie Mac does not have hard and fast credit score limitations specific to this program. Loan Prospector® incorporates the additional collateral risk into its assessment of the loan.

PROGRAM NAME	Manufactured Home Mortgage
AGENCY	Freddie Mac
EXPIRATION DATE	Not Applicable
APPLICATIONS	No program-specific application is required. For information on becoming a Freddie Mac seller, see <a href="http://www.freddiemac.com/singlefamily/doingbusiness/">http://www.freddiemac.com/singlefamily/doingbusiness/</a>
WEB LINK	<a href="http://www.freddiemac.com/singlefamily/expmkts/mhle.html">http://www.freddiemac.com/singlefamily/expmkts/mhle.html</a>
CONTACT INFORMATION	<a href="mailto:institutional_eligibility@freddiemac.com">institutional_eligibility@freddiemac.com</a> (ask for a call back in your email)
APPLICATION PERIOD	Continuous
GEOGRAPHIC SCOPE	No restriction by state. Sellers must represent and warrant that the manufactured home is legally classified as real property under applicable state laws.

**First-time homebuyers:** The program is not restricted to first-time homebuyers.

**Occupancy and ownership of other properties:** The property may be a primary residence or second home, if allowed by the mortgage product used, but not an investment property.

**Special assistance for persons with disabilities:** Retrofitting a home for use by a person with a disability is not an eligible use of this program, but purchasing an appropriate home is.

**Property type:** Properties may only be single units. The manufactured home must have been built on or after June 15, 1976, and be permanently affixed to a foundation and utilities. The home must be at least 12 feet wide and have a minimum 600 square feet of gross living area.

**Real property requirements:** Manufactured homes must be legally classified as real property in the state where the borrower proposes to locate the subject property. The manufactured home must be affixed to a permanent foundation in a way that makes it part of the real property.

## LOAN CRITERIA

**Loan limits:** FHFA publishes Freddie Mac's conforming loan limits annually. For 2016, a one-unit property has a loan limit ranging from \$417,000 to \$625,500 depending on geography. Certain high-cost areas are also taken into consideration.

**Loan-to-value limits:** The maximum LTV is generally 95 percent; however, refer to the Seller/Servicer Guide Section H33.3(e) for the latest details as certain exceptions apply; for example, 5 percent is subtracted from LTV limit if using secondary financing.

**Adjustable-rate mortgages:** 7/1 and 10/1 ARMs are allowed.

**Down payment sources:** A minimum of 5 percent of the down payment must come from borrower's personal funds.

**Homeownership counseling:** Homeownership counseling is not required unless required by the underlying loan product.

**Mortgage insurance:** A mortgage secured by a manufactured home has special mortgage insurance coverage requirements found in the Seller/Servicer Guide Section H33.3(f).

**Debt-to-income ratio:** Debt-to-income ratio is determined by Loan Prospector® in accordance with the limits of the program used (e.g., HomePossible®). In the event the borrower has student loan debt and is not yet in repayment, as is the case for current students, Freddie Mac's policy is to include 1 percent of the total student loan balance in the debt-to-income calculation. For example, if the student has a current debt of \$20,000, then Freddie Mac would add an estimated \$200 monthly payment to the DTI calculation.

## POTENTIAL BENEFITS

The Manufactured Home Mortgage program may allow a community bank to expand its customer base in low- and moderate-income communities. Manufactured housing is the country's largest source of unsubsidized affordable home ownership and an opportunity for lenders to expand into new market segments.

Manufactured homes have improved significantly in quality, energy efficiency, and safety while remaining much more affordable than site-built housing if borrowers have access to mortgage credit. Lenders can therefore make long-term real estate mortgages secured by manufactured homes with less risk.

## POTENTIAL CHALLENGES

Freddie Mac will not purchase mortgages secured by manufactured homes on leased land. This is a common form of land tenure for manufactured homes.

Depending on state law, manufactured homes may be considered personal property, not real property; personal property loans are not eligible for sale to Freddie Mac.

**Temporary interest rate buy downs:** Temporary interest rate buy downs are not allowed.

**Refinance:** Cash-out and no cash-out refinances are allowed.

**Trade equity from existing Manufactured Housing:**

Many manufactured home dealers offer equity-like contributions for home purchasers who trade in an old model of home to buy a new one, similar to an automobile trade-in program. The maximum equity contribution from the traded manufactured home is determined as follows:

- if the borrower has owned the traded manufactured home for 12 months or more before the application date, 90 percent of the retail value based on the NADA Manufactured Housing Appraisal Guide®, or if the borrower has owned the traded manufactured home for less than 12 months before the application date, the maximum equity contribution is the lesser of 90 percent of the retail value or the lowest price at which the manufactured home was sold during that 12-month period; and
- any costs resulting from the removal of the manufactured home or any outstanding indebtedness secured by liens on the manufactured home must be deducted from the maximum equity contribution.

**Land equity:** If the borrower owns the land on which the manufactured home is being permanently attached, the land may be used as an equity contribution. In such event, the borrower's equity contribution is equal to:

- the current appraised value of the land if the borrower has owned the land for 12 months or more before the application date; or
- the lower of the current appraised value of the land or the purchase price of the land if the borrower has owned the land for less than 12 months.

**Underwriting:** Loans secured by manufactured housing must be submitted to Loan Prospector®.

**Delivery fee:** Manufactured Home Mortgage loans have a fee of 1 percent in addition to the standard fees.

## Potential Benefits

- The Manufactured Home Mortgage program may allow a community bank to expand its customer base in low- and moderate-income communities. Manufactured housing is the country's largest source of unsubsidized affordable homeownership and an opportunity for lenders to expand into new market segments.
- Manufactured homes have improved significantly in quality, energy efficiency, and safety while remaining much more affordable than site-built housing if borrowers have access to mortgage credit. Lenders can therefore make long-term real estate mortgages secured by manufactured homes with less risk.
- Loans originated through the Manufactured Home Mortgage program may be positively considered under the Community Reinvestment Act, depending on the geography or incomes of the participating borrowers.

## Potential Challenges

- Freddie Mac will not purchase mortgages secured by manufactured homes on leased land. This is a common form of land tenure for manufactured homes.
- Depending on state law, manufactured homes may be considered personal property.
- The home must not have been previously installed on another site.
- Freddie Mac charges a 1 percent additional delivery fee for loans secured by manufactured housing.
- Lenders must have a way to access Freddie Mac programs, whether through direct sales or a correspondent arrangement, as discussed in the introduction to this section. Depending on the arrangement, community banks may need to acquire or develop new expertise and infrastructure in order to participate.

## SIMILAR PROGRAMS

- Fannie Mae Standard Manufactured Housing Loan
- FHA Manufactured Home Loan Insurance

## RESOURCES

### Facts about Manufactured Housing [CFED]

[http://cfed.org/programs/innovations\\_manufactured\\_homes/about\\_manufactured\\_housing/facts\\_about\\_manufactured\\_housing/](http://cfed.org/programs/innovations_manufactured_homes/about_manufactured_housing/facts_about_manufactured_housing/)

### Summary of applicable state laws

[http://cfed.org/assets/pdfs/manufactured\\_housing/Titling\\_Homes\\_as\\_Real\\_Property.pdf](http://cfed.org/assets/pdfs/manufactured_housing/Titling_Homes_as_Real_Property.pdf)

### Loan limits

<http://www.freddiemac.com/singlefamily/selbuln/limit.htm>

### Delivery fees including Manufactured Housing

<http://www.freddiemac.com/singlefamily/pdf/ex19.pdf>

## Relief Refinance<sup>SM</sup>/Home Affordable Refinance Program (HARP)

Helps responsible borrowers with little or no home equity refinance into more affordable mortgages

### BACKGROUND AND PURPOSE

The purpose of the Relief Refinance<sup>SM</sup>/Home Affordable Refinance Program (HARP) is to help borrowers with little or no equity in their homes refinance into more affordable mortgages. HARP is for borrowers whose loans are owned by Freddie Mac or Fannie Mae. HARP targets borrowers with high loan-to-value (LTV) ratios and who have limited delinquencies over the 12 months before refinancing. Changes possible through HARP include lower interest rates, shorter loan terms, or changing from an adjustable to fixed-rate mortgage. HARP guidelines have been simplified and relaxed over the life of the program, meaning that even people who were previously turned down may now be eligible for HARP refinancing. For example, in 2011, the LTV ceiling was removed for fixed-rate mortgages, property appraisal requirements were waived in certain circumstances, certain risk fees for borrowers selecting shorter

amortization terms were eliminated, and certain representations and warranties were waived. In 2013, the eligibility date was changed from the date the loan was acquired by Freddie Mac or Fannie Mae to the date on the note, increasing the pool of eligible borrowers.

HARP was introduced in March 2009 to address the decline in home values that occurred over the previous few years. More than 3 million borrowers have refinanced under this program since its inception. HARP has been extended several times; currently it is set to expire on December 31, 2016.

### BORROWER CRITERIA

**Original loan requirements:** The loan must be guaranteed by Freddie Mac (e.g., no Fannie Mae, VA, FHA, or USDA loans).

PROGRAM NAME	Relief Refinance <sup>SM</sup> /Home Affordable Refinance Program
AGENCY	Freddie Mac
EXPIRATION DATE	December 31, 2016
APPLICATIONS	No program-specific application is required. For information on becoming a Freddie Mac seller, see <a href="http://www.freddiemac.com/singlefamily/doingbusiness/">http://www.freddiemac.com/singlefamily/doingbusiness/</a>
WEB LINK	<a href="http://www.harp.gov">http://www.harp.gov</a>
CONTACT INFORMATION	<a href="mailto:institutional_eligibility@freddiemac.com">institutional_eligibility@freddiemac.com</a> (ask for a call back in your email)
APPLICATION PERIOD	Continuous
GEOGRAPHIC SCOPE	National. HARP tracks the number of eligible loans by state and MSA. Information is available quarterly at <a href="http://www.harp.gov/Default.aspx?Page=363">http://www.harp.gov/Default.aspx?Page=363</a>

**Age of loan:** The original loan must have been originated on or before May 31, 2009.

**Loan-to-value limits:** The original loan must be above 80 percent LTV, with no upper limit on LTV for fixed-rate mortgages.

**Delinquency:** No late mortgage payments in the last six months, no more than one 30-day late payment in the last 12 months.

**Income limits:** This program has no income limits.

**Credit:** The minimum credit score for a one- to four-unit primary residence is 660.

**Occupancy and ownership of other properties and property type:** HARP refinances may be performed on primary residences, investment properties, and second homes (single units only).

**Special populations:** No benefit is conferred by being a member of a special population.

**Property type:** Single-family homes of one- to four-units, manufactured homes, planned unit developments, and condominiums are allowed. Units in cooperatives are allowed if allowed by the cooperative's sales documents.

## LOAN CRITERIA

**Loan limits:** FHFA publishes Freddie Mac's conforming loan limits annually. For 2016, a one-unit property has a loan limit ranging from \$417,000 to \$625,500 depending on geography. Certain high-cost areas are also taken into consideration.

**Original loan requirements:** The loan must be guaranteed by Freddie Mac.

**Adjustable-rate mortgages:** 5/1, 7/1 and 10/1 ARMs are allowed but must result in a principal and interest reduction if refinancing from a fixed-rate mortgage. LTV is capped at 105 percent.

**Post-settlement delivery fee:** For primary residences with LTV ratios greater than 80 percent, Freddie Mac caps the delivery fee at zero percent for loans with terms less than 20 years, and 0.75 percent for loans with terms of more than 20 years.

**Mortgage insurance:** For an LTV ratio greater than 80 percent:

- If the mortgage being refinanced has mortgage insurance coverage, then the same mortgage insurance coverage percentage must be maintained or the standard coverage applies.
- If the mortgage being refinanced does not have mortgage insurance, then no mortgage insurance coverage is required.

## POTENTIAL BENEFITS

Lenders do not need to perform new underwriting or review new appraisals in most cases.

Freddie Mac has reduced the fees it charges lenders that help borrowers refinance into less risky, shorter-term loans.

## POTENTIAL CHALLENGES

This program has several barriers to being a source of new business. Eligible properties are concentrated in a few markets. Also, if borrowers are going through a new lender, the lender will need to perform a new appraisal and underwriting, eliminating the processing efficiencies offered by the program.

If payments are going up by more than 20 percent, requalification is necessary, meaning more work for lenders assisting borrowers who are making substantial changes to their mortgages.



**Fees:** For fixed-rate loans with LTV ratios greater than 80 percent, Freddie Mac's fee is zero percent on loans with terms less than 20 years, with a 0.75 percent cap on loans with terms of more than 20 years.

**Underwriting:** Loans must be fully underwritten using Loan Prospector® or manual underwriting.

**Appraisal:** Either Home Value Explorer® (HVE) or a full new appraisal can be used to determine collateral value. See Guide Section B24.3(g) for detailed requirements on the use of HVE.

## ADDITIONAL INFORMATION

The Home Affordable Modification Program (HAMP), not covered in this guide, is meant for homeowners with a documented financial hardship. HARP is designed for borrowers who are not experiencing problems that could impact their ability to pay.

In marketing both the Fannie Mae and Freddie Mac versions of HARP to prospective users, lenders must give the same amount of advertising to both programs.

The refinance process must provide a benefit to the borrower, including:

- reduction in the borrower's monthly principal and interest payment;
- reduction in the interest rate;
- reduction in the amortization term; or
- movement to a more stable product.

## Potential Benefits

- Lenders do not need to perform new underwriting or review new appraisals in most cases.
- Freddie Mac has reduced the fees it charges lenders that help borrowers refinance into less risky, shorter-term loans.
- Lenders now need less paperwork for income verification, and have the option of qualifying a borrower by documenting that the borrower has at least 12 months of mortgage payments in reserve.
- If lenders underwrite a HARP loan they did not initially underwrite, the reps and warrants on the loan will sunset in 12 months rather than 36 for other Freddie Mac products.

## Potential Challenges

- This program has several barriers to being a source of new business. Eligible properties are concentrated in a few markets. Also, if borrowers are going through a new lender, the lender will need to perform a new appraisal and underwriting, eliminating the processing efficiencies offered by the program.
- If payments are going up by more than 20 percent, requalification is necessary, meaning more work for lenders assisting borrowers who are making substantial changes to their mortgages.
- The program has been extended several times but is likely to end in 2016.

## SIMILAR PROGRAMS

- Fannie Mae Refi Plus™/Home Affordable Refinance Program (HARP)
- FHA Streamline Refinance

## RESOURCES

### Delivery fees

<http://www.freddiemac.com/singlefamily/pdf/ex19.pdf>

### Find out if Freddie owns the loan

<https://ww3.freddiemac.com/loanlookup/>

**Program guidelines:** See Chapter 24.3 of Freddie Mac's Seller/Servicer Guide FAQs.

[http://www.freddiemac.com/singlefamily/factsheets/sell/relief\\_refi\\_faqs.html](http://www.freddiemac.com/singlefamily/factsheets/sell/relief_refi_faqs.html)

### About Loan Prospector®

<http://www.loanprospector.com/about/>

### About Home Value Explorer®

<http://www.freddiemac.com/hve/hve.html>

## FDIC's Community Affairs Program

The FDIC's Community Affairs Program supports the FDIC's mission to promote stability and public confidence in the nation's financial system by encouraging economic inclusion and community development initiatives that broaden access to safe and affordable credit and deposit services from insured depository institutions, particularly for low- and moderate-income (LMI) consumers and small businesses.

### To accomplish this work, the FDIC:

- provides information and technical assistance to banks to assist them in responding to the credit and banking needs of the communities they serve, including low- and moderate-income people;
- convenes banks, state and local governments, and community-based organizations to explore resources and promising practices on a variety of topics;
- develops and disseminates financial education tools for all ages to banks, teachers, parents, emerging small businesses, and nonprofit training organizations; and
- supports pilot programs and alliances to expand financial capability and economic inclusion.

For low- and moderate-income consumers and small business owners, access to the mainstream banking system provides an important pathway to economic opportunity. Over time, the establishment of a successful relationship with a depository institution can help manage day-to-day needs and build wealth to achieve future goals.

Broad participation in the mainstream financial system is an essential element in promoting stability and confidence in that system. Banks build trust and confidence through their ongoing work to serve their communities and by offering fair, safe, and affordable services, including for low- and moderate-income people. The FDIC's Community Affairs staff is available to assist financial institutions in developing strategies that are responsive to the credit, service, and investment needs of their communities.

### ECONOMIC INCLUSION

The FDIC Community Affairs Program places a priority on addressing five areas of opportunity for economic inclusion. These are:

1. support quality programs and resources for financial education and capability;
2. promote access to and use of safe, affordable, insured deposit accounts;
3. improve household financial resilience by encouraging safe and affordable savings and credit solutions;
4. encourage insured depository institutions to make available prudently underwritten, affordable, and responsible mortgage credit for LMI households; and
5. encourage insured depository institutions and their partners to prudently serve the financial needs of emerging entrepreneurs and small businesses.

## FDIC REGIONAL AND AREA OFFICES

### Atlanta Regional Office

10 Tenth Street, N.E. Suite 800  
Atlanta, GA 30309-3906  
Phone: (678)916-2200 (main switchboard)  
Phone: (800) 765-3342 (toll-free)  
Email: [ATLCommunityAffairs@fdic.gov](mailto:ATLCommunityAffairs@fdic.gov)  
States Served: Alabama, Florida, Georgia, North Carolina, South Carolina, Virginia, West Virginia

### Chicago Regional Office

300 South Riverside Plaza, Suite 1700  
Chicago, IL 60606-3447  
Phone: (312) 382-6000 (main switchboard)  
Phone: (800) 944-5343 (toll-free)  
Email: [CHICommunityAffairs@fdic.gov](mailto:CHICommunityAffairs@fdic.gov)  
States Served: Illinois, Indiana, Kentucky, Michigan, Ohio, Wisconsin

### Dallas Regional Office

1601 Bryan Street, 35th Floor  
Dallas, TX 75201-4586  
Phone: (214) 754-0098 (main switchboard)  
Phone: (800) 568-9161 (toll-free)  
Email: [DALCommunityAffairs@fdic.gov](mailto:DALCommunityAffairs@fdic.gov)  
States Served: Colorado, New Mexico, Oklahoma, Texas, Arkansas, Louisiana, Mississippi, Tennessee

### Dallas Region - Memphis Area Office

6060 Primacy Parkway, Suite 300  
Memphis, TN 38119-5770  
Phone: (214) 754-0098 (main switchboard)  
Phone: (800) 210-6354 (toll-free)  
Email: [MEMCommunityAffairs@fdic.gov](mailto:MEMCommunityAffairs@fdic.gov)  
States Served: Arkansas, Louisiana, Mississippi, Tennessee

### Kansas City Regional Office

1100 Walnut St, Suite 2100  
Kansas City, MO 64106  
Phone: (816) 234-8000 (main switchboard)  
Phone: (800) 209-7459 (toll-free)  
Email: [KSCommunityAffairs@fdic.gov](mailto:KSCommunityAffairs@fdic.gov)  
States Served: Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, South Dakota

### New York Regional Office

350 Fifth Avenue, Suite 1200  
New York, NY 10118-0110  
Phone: (917) 320-2500 (main switchboard)  
Phone: (800) 334-9593 (toll-free)  
Email: [NYCommunityAffairs@fdic.gov](mailto:NYCommunityAffairs@fdic.gov)  
States and Territories Served: Delaware, District of Columbia, Maryland, New Jersey, New York, Pennsylvania, Puerto Rico, Virgin Islands, Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont

### New York Region - Boston Area Office

15 Braintree Hill Office Park  
Braintree, MA 02184-8701  
Phone: (781) 794-5500 (main switchboard)  
Phone: (866) 728-9953 (toll-free)  
Email: [BOSCommunityAffairs@fdic.gov](mailto:BOSCommunityAffairs@fdic.gov)  
States Served: Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont

### San Francisco Regional Office

25 Jessie Street at Ecker Square, Suite 1800  
San Francisco, CA 94105-2780  
Phone: (415) 546-0160 (main switchboard)  
Phone: (800) 756-3558 (toll-free)  
Email: [SFCCommunityAffairs@fdic.gov](mailto:SFCCommunityAffairs@fdic.gov)  
States and Territories Served: Alaska, Arizona, California, Guam, Hawaii, Idaho, Montana, Nevada, Oregon, Utah, Washington, Wyoming

# Glossary & Terms

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## ACRONYMS

**AMI:** Area median income

**ARM:** Adjustable-rate mortgage

**AUS:** Automated underwriting system

**BEA:** Bank Enterprise Awards (U.S. Department of the Treasury)

**BIA:** Bureau of Indian Affairs

**CAM:** Customer Account Manager (Fannie Mae)

**CDFI:** Community Development Financial Institution

**CDFI Fund:** Community Development Financial Institutions Fund (U.S. Department of the Treasury)

**CMF:** Capital Magnet Fund (U.S. Department of the Treasury)

**CRA:** Community Reinvestment Act

**DTI:** Debt-to-income ratio

**DU:** Desktop Underwriter® (Fannie Mae)

**FDIC:** Federal Deposit Insurance Corporation

**FHA:** Federal Housing Administration

**FHFA:** Federal Housing Finance Agency

**FHLBanks:** Federal Home Loan Banks

**GSEs:** Government-sponsored enterprises (refers to Fannie Mae and Freddie Mac)

**HAMP:** Home Affordable Modification Program

**HARP:** Home Affordable Refinance Program

**HUD:** U.S. Department of Housing and Urban Development

**LLPA:** Loan-level price adjustment

**LTV:** Loan to value

**MBS:** Mortgage-backed security

**MOU:** Memorandum of understanding

**OCC:** Office of the Comptroller of the Currency (U.S. Department of the Treasury)

**PFI:** Participating Financial Institutions (FHLBanks)

**PMI:** Private mortgage insurance

**REO:** Real estate owned

**UFMIP:** Upfront mortgage insurance premium

**USDA:** U.S. Department of Agriculture

**VA:** U.S. Department of Veterans Affairs

## TERMS

**Adjustable-rate mortgage (ARM):** A mortgage loan with an interest rate on the note that is periodically adjusted based on an index that reflects the cost to the lender of borrowing on the credit markets. Most ARMs allowed in programs covered in this Guide are hybrid ARMs that have an initial fixed-rate period. ARMs may have restrictions, or cap rates, on the amount of the first, periodic, and lifetime total changes in the interest rate.

**Aggregator:** An entity that purchases mortgages from financial institutions and typically securitizes them into mortgage-backed securities that are then sold to the secondary mortgage market.

**Appraisal:** A valuation of real estate by an authorized person who observes, analyzes, and reports the physical and economic characteristics of the property. The estimate is limited to readily observable conditions; the observations on which it is based are not as comprehensive as a licensed home inspection.

**Approved lender:** Lenders that apply for and meet requirements established by the entity (i.e., the Federal Housing Administration, U.S. Department of Housing and Urban Development, the U.S. Department of Veterans Affairs, the U.S. Department of Agriculture, and the government-sponsored enterprises) are granted permission to participate in the entity's programs. Approved activities may include origination, underwriting, purchasing, holding, servicing, or selling mortgages. Common eligibility requirements include a net worth threshold, a checklist of financial statements, and a quality control program.

**Approved seller/servicer:** An institution approved to sell mortgages to, and to service mortgages purchased by the entity (i.e., Fannie Mae or Freddie Mac). Common eligibility requirements include a net worth threshold, a checklist of financial statements, and a quality control program.

**Area loan limits:** Entities establish the maximum loan that can be insured, purchased, or guaranteed by the entity or program. Limits are based on median home values at the county level and entities typically update limits annually. For example, the Federal Housing Finance Agency (FHFA) sets "conforming loan limits" for the government-sponsored enterprises, the Federal Housing Administration sets "statutory loan limits" for approved lenders, the U.S. Department of Agriculture has "area loan limits," and the U.S. Department of Veterans Affairs follows FHFA guidelines.

**Automated underwriting system (AUS):** A computer generates a loan underwriting decision based on borrower data and algorithms. Compared to manual underwriting, which can take as long as 60 days, the automated process provides a quick decision and avoids human bias. Entities create systems tailored to their programs; for example, Fannie Mae developed Desktop Underwriter®, and Freddie Mac uses Loan Prospector®.

**Base loan-to-value ratio:** The loan-to-value (LTV) ratio calculated using the mortgage amount excluding the financed mortgage insurance premium. (This is in contrast to the gross LTV ratio, which includes the mortgage amount and financed mortgage insurance premium.) Fannie Mae and Freddie Mac use the ratio to determine the mortgage insurance coverage amount.

**Basis points:** A basis point is one hundredth of 1 percent. That is, one basis point equals 0.01 percent or there are 100 basis points in 1 percent. It is a common unit of measure for interest rates.

**Buy-down funds:** Funds offered by the seller of the property, typically a builder or developer, to the buyer to lower the interest rate in the early years of the loan.

**Cash-out refinance:** A refinance transaction in which the new mortgage amount is greater than the existing mortgage plus loan settlement costs. The borrower receives a cash payment for the difference between the two mortgage amounts minus any settlement costs not paid out of pocket. (See also Limited cash-out refinance.)

**CDFI Fund distressed community:** The CDFI Fund defines distressed communities based on geographic and economic criteria. At least 30 percent of the population must have incomes less than the national poverty level, and the unemployment rate must be at least 1.5 times the national average. The area must have a population of at least 4,000 if within a Metropolitan Statistical Area (MSA). If not in an MSA, it must have a population of at least 1,000. Alternatively, the area must be located entirely within an Indian Reservation.

**Certificate of Eligibility (COE):** Veterans must meet eligibility requirements and obtain a Certificate of Eligibility from the U.S. Department of Veterans Affairs (VA) to be eligible for a VA Home Loan. The certificate verifies to the lender that the borrower is eligible for a VA-backed loan.

**Chattel loan:** Chattel refers to moveable property. Manufactured homes titled as personal property are financed through personal property loans known as chattel loans. The lender holds a lien against the manufactured home only, not the land.

**Closing costs:** Fees incurred by the borrower and/or seller for costs associated with the closing transaction. Common fees include appraisal fees, tax service provider fees, title insurance, government taxes, and prepaid expenses such as property taxes and homeowner's insurance. Fees are generally paid up front at closing or the lender may roll them into the mortgage, resulting in higher monthly payments.

**Combined loan to value ratio (CLTV):** A ratio calculated by dividing the sum of (1) the loan amount of the first mortgage, (2) the outstanding principal balance of any home equity loan, and (3) the unpaid principal balance of all other subordinate financing, by the lesser of the sales price of the appraised value of the property. The CLTV ratio is used for a mortgage loan where the borrower has taken out more than one loan for the property.

**Community land trust (CLT):** A nonprofit housing development organization that acquires parcels of land (with or without housing on the parcel) and holds them in perpetuity primarily under long-term ground leases to provide permanently affordable housing opportunities for low- and moderate-income families and communities. At the time of purchase, the owner of a CLT property agrees to sell the home at a resale-restricted and affordable price to another lower-income homebuyer in the future. The nonprofit board is governed by CLT residents, community residents, and public representatives.

**Conforming loan:** A conventional mortgage loan that has an original loan amount not exceeding the government-sponsored enterprise (GSE) conforming loan limit at the time a GSE purchased or securitized the mortgage. The GSEs are restricted by law to purchasing mortgages with origination balances below a specific amount, known as the conforming loan limit. In addition to size limits, the conforming loan must meet the GSE's underwriting and documentation standards.

**Conventional loan:** A mortgage that is not insured or guaranteed by a federal government agency, i.e., the Federal Housing Administration, U.S. Department of Housing and Urban Development, the U.S. Department of Veterans Affairs, the U.S. Department of Agriculture, and the Bureau of Indian Affairs. Conventional loans include both loans that conform to government-sponsored enterprise (GSE) guidelines and those that do not conform. Conventional mortgages delivered to the GSEs are also known as conforming mortgages.

**Correspondent lender:** A lending institution that originates and funds loans in its own name and then sells them to another lender or investor. The underwriting function in a correspondence relationship can be carried out by the correspondent or the investor. As a correspondent lender, the originating lender is

acting as an extension of the investor. For example, correspondent lenders work with approved seller/servicers to originate government-sponsored enterprise loan products.

**Cost basis:** For real estate, the cost basis includes the original purchase price and certain other expenses like real estate taxes owed by the seller, settlement fees, and closing costs plus any improvements to the property (but not maintenance costs).

**Direct endorsement authority:** Authority granted to Federal Housing Administration (FHA) approved lenders that allow them to underwrite loans and determine their eligibility for FHA mortgage insurance without the prior approval of HUD.

**Discount points:** Prepaid interest that borrowers can pay at loan origination to lower the amount of interest they have to pay in the future. Each discount point costs 1 percent of total loan amount and lowers the interest rate by  $\frac{1}{8}$  to  $\frac{1}{4}$  percentage point. Lenders benefit by receiving cash up front instead of waiting for it in future interest payments.

**Down payment:** A payment made in cash at the onset of the purchase of an expensive asset. Homebuyers typically pay down payments that equal 5-25 percent of the total value of a home although some federal and GSE programs allow lower down payments.

**Equity investment:** Investment capital is used to buy or hold shares of a company. In the case of a nonprofit entity, "unrestricted net assets" on the balance sheet are the equivalent of equity. The major feature of equity—in contrast to debt—is that there is no obligation on the part of the firm to repay the investment or use it for specific purposes or, usually, to pay interest on it.

**Escrow:** In general, escrow is money held by an impartial third party that disburses the funds after specified conditions are met. The lender establishes the account to pay for property-related expenses like property taxes and homeowner's insurance on behalf of the borrower, and the borrower pays in monthly installments. Certain federal programs require lenders to maintain escrow accounts.

**Extended buy down:** The lender offers the borrower an initial interest rate that is lower than the note rate by up to 3 percentage points. The interest rate is then increased by no more than 1 percentage point annually



for more than two but no more than three years. This gives the borrower lower initial payments and the stability of predictable payment increases.

**FHA loan correspondent:** A financial institution approved by the Federal Housing Administration (FHA) to originate and submit applications for guaranteed mortgages; the institution may not hold, purchase, or service guaranteed mortgages. A loan correspondent may be either a supervised or a non-supervised institution. A loan correspondent that is also a supervised institution may service guaranteed mortgages in its own portfolio. Non-supervised loan correspondents, or mortgage brokers, are non-depository financial entities that have as their principal activity the origination of FHA-insured mortgages for sale or transfer to one or more sponsors that underwrite the mortgages.

**FICO score:** A type of credit score that lenders use to assess a borrower's credit risk. FICO stands for Fair Isaac Corporation, the company that created the FICO score. Scores are calculated using borrower credit reports and range from 300 to 850. A lower score indicates the borrower has poorer credit, and a higher score indicates the borrower has stronger credit.

**First mortgage:** A mortgage in the first-lien position that has priority over all other liens or claims in the event of default.

**Fixed-rate mortgage:** The interest rate is defined when the borrower takes out the mortgage and does not change over the loan term.

**Funding fee:** Generally, veterans using a U.S. Department of Veterans Affairs (VA) guaranty loan must pay a funding fee. It is a percentage of the loan amount that varies based on the type of loan, military category, first-time loan user status, and existence of a down payment. VA funding fees may be financed with the mortgage or paid in cash at closing. Veterans with a service-connected disability are exempt from the funding fee.

**Ginnie Mae:** Short for the Government National Mortgage Association. Ginnie Mae guarantees timely payments on mortgage-backed securities (MBS) backed by federally-insured loans including those insured by the U.S. Department of Veterans Affairs, Federal Housing Administration, U.S. Department of Agriculture's Rural Development, and the U.S.

Department of Housing and Urban Development Office of Public and Indian Housing. Ginnie Mae securities are the only MBS guaranteed by the federal government.

**Guarantee fee:** Fee charged to compensate secondary market purchasers for providing a guarantee on a mortgage-backed security. Guarantee fees are structured as a percentage of the total loan amount.

**Guaranteed Underwriting System (GUS):** The automated underwriting system used by the U.S. Department of Agriculture (USDA). It is optional at the time of this writing, but USDA expects to continue development and eventually make it required. Otherwise, loans for USDA programs are underwritten manually.

**Homeownership Center (HOC):** The U.S. Department of Housing and Urban Development (HUD) centralizes many of the mortgage-insuring processes into four HOCs that each supports a specific geographic area. Each HOC insures single-family Federal Housing Administration (FHA) mortgages, assures FHA mortgage quality, and oversees the selling of HUD homes for the states in its jurisdiction. The four HOCs are in Atlanta, Philadelphia, Denver, and Santa Ana.

**Housing authorities:** A legal entity authorized by a state to provide housing strategies for its communities, including management of public housing. Housing authorities are required to follow federal regulations and receive subsidies from the U.S. Department of Housing and Urban Development. There are over 3,200 housing authorities across the country.

**Hybrid adjustable-rate mortgages:** A mortgage that blends characteristics of fixed- and adjustable-rate mortgages. The mortgage has an initial fixed interest rate. At the end of the fixed-rate period (the "reset date"), the interest rate adjusts based on an index plus a margin. These mortgages are often advertised as 3/1 or 5/1 ARMs: the first number indicates how long the fixed-rate period is and the second number indicates the frequency with which the rate may subsequently be adjusted. For example, a 3/1 ARM has a three-year, fixed-rate period after which its rate may be adjusted annually.



**Interest Rate Reduction Refinancing Loan (IRRRL):** A loan made to refinance an existing U.S. Department of Veterans Affairs (VA) loan. Refinancing to a lower interest rate means the borrower's monthly payment will decrease. The borrower can also choose to refinance an adjustable-rate mortgage to a fixed-rate loan.

**Investing lender:** A financial institution, including a charitable or nonprofit organization or pension fund, that is approved by the Federal Housing Administration (FHA) to service, purchase, hold, or sell FHA-insured mortgages. This mortgagee type cannot originate or fund FHA loans.

**Land-lease community:** Residential land-lease permits a tenant to use a piece of land owned by the landlord in exchange for rent. Land leases are almost exclusively used for mobile homes and constitute "trailer parks," with the exception of land leases known as ground rents that are used for site-built properties in certain states.

**Lien:** A claim or charge against property or funds for payment of a debt, or an amount owed for services rendered. In real estate, a mortgage is regarded as a lien. If not repaid, the debt can be recovered by foreclosure and sale of the real estate.

**LIBOR:** Short for London Interbank Offered Rate. A benchmark interest rate that banks use to charge each other for short-term loans. Based on five currencies—the U.S. dollar, Euro, pound sterling, Japanese yen, and Swiss franc—it serves seven different maturities: overnight, one week, and 1, 2, 3, 6, and 12 months.

**Limited buy down:** The lender offers the borrower an initial interest rate that is no more than 2 percentage points below the note rate and is increased by no more than 1 percentage point annually for no more than two years. This option is a good fit for borrowers who have the capacity for higher earnings within a few years of obtaining a mortgage. It gives the borrower lower initial payments and the stability of predictable payment increases. Fannie Mae and Freddie Mac specify when this practice is acceptable, and it varies by program. (See also Extended buy-down.)

**Limited cash-out refinance:** A refinance transaction in which the mortgage amount generally is limited to the sum of the unpaid principal balance of the existing first mortgage, closing costs (including prepaid

items), points, and the amount required to satisfy any mortgage liens if the documented proceeds of the subordinate financing were solely used to acquire the property if the borrower chooses to satisfy them, and other funds for the borrower's use as long as the amount does not exceed the lesser of \$2,000 or 2 percent of the principal amount of the new mortgage. This definition applies to Fannie Mae mortgage programs. (See also Cash-out refinance.)

**Loan-level price adjustment (LLPA):** Risk-based pricing adjustments that vary based on credit score, loan-to-value ratio, type of product, and various other factors, charged at the time of origination. Fannie Mae and Freddie Mac charge both annual guarantee fees and upfront LLPAs. Most lenders convert LLPAs into the interest rate on the mortgage, which the borrower pays over time. (See also Guarantee fee.)

**Loan limit:** The maximum allowable mortgage amount under a particular program established by the federal agency or government-sponsored enterprise (GSE), generally according to statutory parameters. For example, the Federal Housing Finance Agency (FHFA) sets "conforming loan limits" for the GSEs, the Federal Housing Administration sets "statutory loan limits" for approved lenders, the U.S. Department of Agriculture has "area loan limits," and the U.S. Department of Veterans Affairs (VA) follows FHFA guidelines.

**Loan-to-value (LTV) ratio:** A ratio that compares the amount of the first mortgage with the appraised value of the property. It is calculated by dividing the loan amount by the value of the property. The higher the down payment, the lower the LTV.

**Low- and moderate-income (LMI) communities:** Low-income geographies have a median family income less than 50 percent of the area median income. Moderate-income geographies are those whose median family income is at least 50 percent but less than 80 percent of the area median income. Banks regulated under the Community Reinvestment Act are evaluated on how well they meet the credit needs of low- and moderate-income communities.

**Manual underwriting:** Instead of using an automated system, a loan officer evaluates a borrower's risk by calculating the various ratios and analyzing other factors. It generally takes longer to process a loan application using manual underwriting, but there is

the opportunity for greater flexibility in evaluating the borrower's creditworthiness.

**Manufactured home:** A structure that is transportable in one or more sections. In traveling mode, it must be 8 feet or more wide, or 40 feet or more long. When the structure is erected on site it must be 320 or more square feet, built on a permanent chassis, and designed to be used as a dwelling (with or without a permanent foundation) when the required utilities are connected. Required utilities include plumbing, heating, air conditioning, and electrical systems contained in the structure. Structures cannot be self-propelled recreational vehicles. The manufactured home must be built in compliance with Federal Manufactured Home Construction and Safety Standards per U.S. Department of Housing and Urban Development (HUD) regulations. Proof of compliance is evidenced by a HUD Data Plate affixed visibly and permanently to the home.

**Mortgage broker:** A company that matches borrowers and lenders and charges a commission for the service. A mortgage broker typically takes the borrower's application and sometimes processes the loan. Unlike a mortgage lender, a mortgage broker does not use its own funds to close the loan.

**Mortgage insurance:** An insurance policy paid for by the borrower with the lender as beneficiary, in which a third party – the insurer – takes some of the loan-default risk. In the event of foreclosure, the insurer pays a set amount to the lender to cover some or all of the outstanding loan balance. Mortgage insurance should be distinguished from hazard insurance, which a homeowner purchases to cover losses from, for example, fire or theft.

**Mortgage insurance premium (MIP):** The term used for mortgage insurance payments on a Federal Housing Administration loan. On an FHA 203(b) loan, borrowers are assessed an upfront mortgage insurance premium (UFMIP) that is typically included in the loan amount as well as an annual MIP that is paid out in monthly installments throughout the life of the loan.

**Mutual Mortgage Insurance Fund (MMIF):** Federal Housing Administration (FHA) approved lenders are protected by the Mutual Mortgage Insurance Fund in the event a borrower defaults. The MMIF is financed

through the premiums paid by mortgage borrowers for FHA mortgage insurance.

**Non-supervised lender:** This term is used in the context of the FHA program to refer to a lending institution – but not an insured depository – that has as its principal activity the lending or investing of funds in mortgages, consumer installment notes, or similar advances of credit, or the purchasing of consumer installment contracts. Such lenders can be approved as Federal Housing Administration (FHA) lenders to originate, underwrite, close, endorse, service, purchase, hold, or sell FHA-insured mortgages.

**Principal, interest, taxes, and insurance (PITI):** The four components of monthly housing expenses. Principal is the part of the mortgage payment that goes to paying down the balance of the loan, interest is charged by the lender for the privilege of borrowing the money, taxes are to pay property taxes, and insurance includes property insurance and private mortgage insurance.

**Private mortgage insurance (PMI):** An insurance policy that protects lenders against loss if a borrower defaults on a conventional loan. PMI is required for government-sponsored enterprise loans with loan-to-value ratios over 80 percent. Purchasing PMI allows the borrower to make a smaller down payment.

**Reps and warrants:** Assertions that the seller makes in a purchase and sales agreement about the nature of the loan and which in turn form the basis for due diligence. If lenders are found to violate reps and warrants, secondary market entities may force the lender to repurchase the loan or may refuse insurance or guarantee claims. This is a tool for ensuring loan originators comply with the credit terms required by the secondary market entities.

**Secondary mortgage market:** Market in which previously issued mortgages and mortgage-backed securities are traded among lenders and investors.

**Servicer Participation Agreement:** An agreement that servicers must sign in order to participate in various Home Affordable Modification programs including Home Affordable Modification Program (HAMP) and the Second-Lien Modification Program (2MP), and three agency specific-programs: the Federal Housing Administration's Treasury FHA-HAMP, the Treasury/FHA's Second Lien Program (FHA2LP), and the

Department of Agriculture's Rural Housing Service's RD-HAMP for loans that are not owned, securitized, or guaranteed by Fannie Mae or Freddie Mac.

**Sponsor:** For the Federal Housing Administration, a sponsor or sponsored third-party originator relationship is one in which a lender (acting as the sponsor) permits another entity to originate mortgages on the lender's behalf. The sponsor may then buy the loan upon closing. Sponsors must have direct endorsement authority.

**Subordinate lien:** A lien other than the first mortgage that is satisfied in the event of default only after liens that are more senior are paid off. The most common type of subordinate lien is a second mortgage.

**Supervised lender:** For Federal Housing Administration (FHA), a financial institution that is a member of the Federal Reserve System or whose accounts are insured by the Federal Deposit Insurance Corporation or the National Credit Union Administration. A supervised lender may originate, underwrite, close, endorse, service, purchase, hold, or sell FHA-insured mortgages.

**Temporary interest rate buy down:** A mortgage option to lower the interest rate of the loan from the note rate by a decreasing amount for a defined period. A typical buy down, written as a 3-2-1, would reduce the interest rate by 3 percent in the first year, 2 percent in the second year, and 1 percent in the third year. (See also Extended buy down.)

**Underserved areas:** Federal agencies designate defined geographic regions (often specific census tracts) as "underserved" based on median income and minority population levels for purposes of directing federal funds to improve the community or for other purposes, including the assessment of how well Community Reinvestment Act (CRA) regulated lenders are meeting their CRA obligations.

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