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. The income used to qualify the borrower must be used by the lender to establish that the income limits are not exceeded. No income limits apply if the home is located in an underserved area.

Credit: Credit scores as low as 660 for purchase transactions and 680 for no cash-out refinances are considered. Loans where none of the borrowers has a usable credit score may be considered. See Resources for link to "Mortgages for Borrowers Without Credit Scores" for detailed guidelines.

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 was a joint ownership in the marital residence is also considered a first-time homebuyer.

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 http://www.freddiemac.com/singlefamily/doingbusiness/
WEB LINK	http://www.freddiemac.com/homepossible/
CONTACT INFORMATION	institutional_eligibility@freddiemac.com (ask for a call back in your email)
APPLICATION PERIOD	Continuous
GEOGRAPHIC SCOPE	National

Occupancy and ownership of other properties: Ownership of other property is allowed without any restrictions. Non-occupant borrowers on mortgages secured by one-unit properties are allowed when the:

- The loan-to-value (LTV) ratio is less than or equal to 95 percent for loans underwritten through Loan Product Advisor® (105 percent combined loan-to-value (CLTV) for mortgages with Affordable Seconds®.).
- The LTV ratio is less than or equal to 90 percent for manually underwritten mortgages (105 percent CLTV for mortgages with Affordable Seconds®.).
- The debt-to-income (DTI) ratio is less than or equal to 43 percent based on the occupying borrower's income for manually underwritten mortgages.

Special populations: Special population status does not confer an advantage.

Property type: Manufactured housing (with certain restrictions), one- to four-unit properties, fee simple homes, condominiums, co-ops, and planned unit developments are eligible property types.

LOAN CRITERIA

Loan limits: Conforming and super-conforming mortgages are eligible. FHFA publishes Freddie Mac's conforming loan limits annually. See Resources for a link to the current limits.

Loan-to-value limits: The Home Possible® maximum LTV is 97 percent, or up to 105 percent 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 by the borrower's employer.

Secondary financing, including home equity lines of credit (HELOCs), is permitted for mortgages with a CLTV ratio of less than or equal to 97 percent or 105 percent with Affordable Seconds®. Note that Affordable Seconds® with deferred payments for five years are considered gifts in the automated underwriting system.

Adjustable-rate mortgages: 5/1, 5/5, 7/1, or 10/1 ARMs with an original maturity not greater than 30 years are allowed on a one- to two-unit property; 5/1, 5/5, 7/1, or 10/1 ARMs are allowed on three- or four-unit properties with an LTV less than or equal to 75 percent; and 7/1 and 10/1 ARMs are allowed on manufactured homes.

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 cor respondent 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.

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 Credit Smart® 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.

Mortgage insurance: The minimum required amount is 16 percent coverage for 90 percent to 95 percent LTV; 12 percent coverage for 85 percent to 90 percent LTV; 6 percent for 80 percent to 85 percent LTV; and zero percent for below 80 percent LTV.

Debt-to-income ratio: Qualifying debt-to-income ratios are determined by Loan Product Advisor®, 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 the payment amount is provided on the credit report, that amount can be used for qualifying purposes. If the monthly payment amount reported on the credit report is zero, use 0.5 percent of the outstanding balance, as reported on the credit report.

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 for borrowers who occupy the property.

Delivery fee: All applicable credit fees apply and are capped at 1.50 percent on mortgages with LTVs 80 percent or greater; or LTVs less than 80 percent with a credit score less than 680. No credit fees apply (fees are capped at 0.00 percent) to mortgages with LTVs under 80 percent and credit scores of 680 or greater. All Home Possible® Mortgages are subject to the Custom Mortgage Insurance Credit Fee, which is added to the applicable fee cap.

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 the Home Possible® program may receive favorable consideration under the CRA, depending on the geography or income 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

RESOURCES

Direct access to the following web links can be found at https://www.fdic.gov/mortgagelending.

General Information

http://www.freddiemac.com/homepossible/

FHFA Conforming loan limits

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

Super conforming loan limits

http://www.freddiemac.com/singlefamily/mortgages/super_conforming.html

Low-income and disaster area definitions and data

http://www.fhfa.gov/DataTools/Downloads/Pages/Underserved-Areas-Data.aspx

Mortgages for borrowers without credit scores

http://www.freddiemac.com/learn/pdfs/uw/mtges4borr_nocreditscores.pdf

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