

FNMA Lowers Down Payment Requirements, Including for High Risk Areas

Maximum Number of Allowable Financed Properties Increased by Lenders

Fannie Mae (FNM/NYSE), starting June 1, 2008, began accepting up to 95 percent loan-to-value ratios for conventional, conforming mortgages in all geographic locations in the United States. Theoretically, FNMA agreed to accept up to a 97% LTV for loans processed through its Desktop Underwriter® (DU®) automated underwriting system but, because of private mortgage insurance limits (required for all loans with less than 20% down payment), the practical maximum LTV is 95%.

The new national down payment policy will supercede the policy the company adopted in December 2007 that required higher down payments in markets where home prices are declining. The new policy applies to loans for purchase of single-family, primary residences. Down payment requirements will vary for other occupancy, property and transaction types.

Fannie Mae and Freddi MAC set the underwriting guidelines for conventional mortgages and purchase the loans from lenders, freeing up the mortgage funds to be reloaned to additional buyers. Changes by one of these GSE's (government sponsored enterprises) is usually followed by a similar, or identical, policy change by the other one.

Prior to these changes in down payment requirements, the conventional down payment requirements had risen to 10% for owner-occupied residences and even more was required if the area was deemed to have declining values. Investment properties required at least 25% down, which has generally decreased to 20%. There are still hefty points add-ons for investment properties and for owner-occupied properties with more than one unit. (Programs which allowed 100% or more, to be financed (in one or more loans) are still in limbo, though they may still be officially part of the overall lending guidelines.)

Officially, Fannie and Freddie will allow a borrower to own up to 10 properties with mortgages on them. (There was, and is, no limit to the number of unencumbered properties that may be owned.) However, individual lenders are allowed to be more restrictive and most reduced their limit to four. While the number of loans that most lenders will allow to an individual borrower remains at four, many have increased the limit in number of mortgages (from all lenders), that a borrower may have, to 6 or more.

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