

HomeReady & Home Possible Booklet

Low-down-payment conventional loans: 3% down, income limits, reduced mortgage insurance, and how they compare to FHA.

In this guide you'll learn:

- Fannie Mae HomeReady
- Freddie Mac Home Possible
- Side-by-side comparison
- How they compare to an FHA loan (3.5% down)
- How down payment assistance can layer on top
- Eligibility mechanics: putting it together

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Low-Down-Payment Conventional Loans: HomeReady & Home Possible

For many first-time and repeat buyers, the biggest hurdle to homeownership is not the monthly payment: it is the down payment. The old rule of thumb that you need 20% down is a myth for most buyers. Two conventional loan programs, Fannie Mae HomeReady and Freddie Mac Home Possible, are built specifically to lower that hurdle. Both let qualified borrowers put down as little as 3% of the purchase price, both cap income eligibility at 80% of the area median income (AMI), and both offer reduced mortgage insurance compared with a standard conventional loan.

These are "conventional" loans, meaning they are not government-insured like FHA, VA, or USDA loans. Instead, they follow guidelines set by the two government-sponsored enterprises (GSEs) that buy loans from lenders. Understanding how they work, and how they differ from an FHA loan, can help you ask better questions and estimate your options more accurately. Everything below is educational. It is not a rate quote, an offer, or personalized advice.

Fannie Mae HomeReady

HomeReady is Fannie Mae's flagship affordable-lending product for creditworthy lower-income borrowers, including those with nontraditional income sources.

Down payment and financing. The minimum down payment can be as low as 3%, which means financing up to 97% of the home's value (a 97% loan-to-value, or LTV, ratio) for a one-unit principal residence when the loan is run through Fannie Mae's automated system, Desktop Underwriter (DU). Manually underwritten one-unit loans are capped at 95% LTV.

Who it is for. HomeReady is available to both first-time and repeat buyers. The home must be your principal residence (owner-occupied).

Income limit. Your total annual qualifying income may not exceed 80% of the AMI for the property's location. Fannie Mae publishes an area median income lookup tool so you can check the limit for a specific address.

Reduced mortgage insurance. Because the down payment is small, private mortgage insurance (PMI) applies, but HomeReady allows reduced MI coverage compared with a standard conventional loan at the same loan-to-value, which generally means a lower monthly insurance cost. Your lender and mortgage-insurer determine the exact coverage and premium for your file. Just as important, this PMI is cancellable: once your equity reaches 20%, you can request cancellation, unlike FHA insurance in most cases.

Homeownership education. When all occupying borrowers are first-time buyers, at least one borrower must complete a homeownership education course, regardless of LTV. Fannie Mae's free HomeView course satisfies this requirement.

Flexible sources of funds. Down payment and closing costs can come from gifts, eligible grants, and Community Seconds (a type of subordinate financing). For a one-unit property, there is no minimum personal-funds contribution required from the borrower. Community Seconds can push the combined loan-to-value (CLTV) up to 105%. Sweat equity is also an acceptable source: Fannie Mae no longer requires a 3% personal contribution and no longer caps sweat equity toward the down payment when the borrower participates in an affordable-housing purchase program run by an eligible nonprofit (a tax-exempt IRS Section 501(c)(3) provider with a demonstrated history of affordable-housing construction).

Credit and income flexibility. HomeReady generally uses a minimum credit score of 620 and allows a debt-to-income (DTI) ratio up to 50%. Additional income sources, such as documented rental or boarder income, may be counted toward qualifying.

Eligible properties. One- to four-unit properties qualify, including condos, planned unit developments (PUDs), co-ops, and one-unit manufactured housing (manufactured homes are more restricted, with a maximum LTV/CLTV of 95%).

Freddie Mac Home Possible

Home Possible is Freddie Mac's equivalent low-down-payment program. It shares the same core goals as HomeReady but is underwritten through Freddie Mac's automated system, Loan Product Advisor (LPA).

Down payment and financing. Home Possible offers a low down payment as small as 3%, up to a maximum 97% LTV for one-unit properties. With Affordable Seconds (Freddie Mac's version of subordinate community financing), the total LTV (TLTV) can reach 105%.

Who it is for. Freddie Mac designs Home Possible for very-low- to low-income borrowers, and it is not limited to first-time buyers. It is meant to serve people across life stages, from first-time buyers to move-up buyers to retirees downsizing. The property must be an owner-occupied primary residence. Purchase and "no cash-out" refinance transactions are allowed, along with fixed-rate and certain adjustable-rate mortgages.

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This is a free 3-page preview. The complete HomeReady & Home Possible Booklet runs about 10 pages with the full details. To get the full version, just add your phone number when you download it on our website -- mortedu.com. Your phone number is used only for sending you updated emails and/or support information.