Non-Borrower Household Income Flexibility

Homeownership for the way we live today

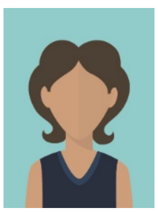
The HomeReady® mortgage is built for today's home buyers. Extended-household living arrangements are more common among underserved populations, including low- to moderate-income, minority, and immigrant households. These households often have lower incomes overall, compared with a broader population, and that may impact their access to credit – but many also are "extended-income households" or EIHs.

HomeReady opportunities for home buyers and lenders

HomeReady recognizes the growth of extended-income households by allowing the existence of non-borrower income to be considered a compensating factor in Desktop Underwriter® (DU®).

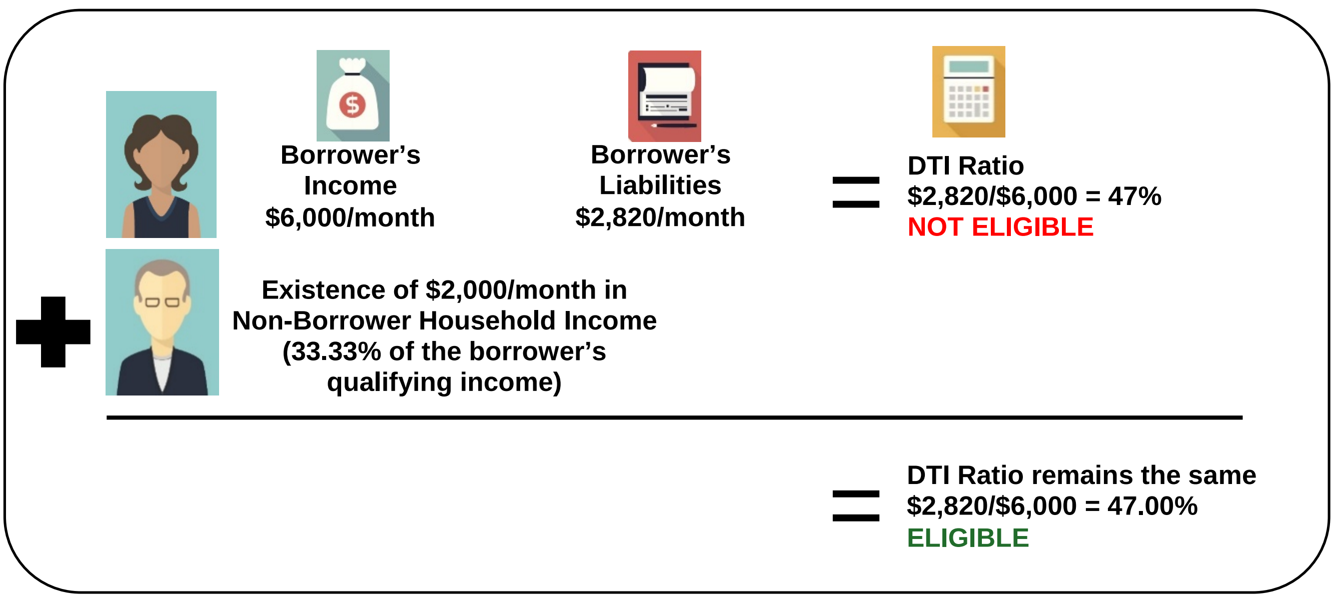
HomeReady permits the borrower to have a higher debt-to-income (DTI) ratio – higher than 45%, up to 50% – considering available household income to provide additional assistance with household expenses if needed. This flexibility not only provides access to mortgage credit for additional creditworthy borrowers, but also may provide a meaningful marketing opportunity for lenders.

Sample scenario: Non-borrower household income*



A single woman with children is looking to buy a larger home, so her father can move in with her. Her father has monthly income and, although he will not pay rent to his daughter, he may contribute to household expenses periodically.

The father's income is **not** considered as qualifying income; therefore, there is no change to the borrower's DTI ratio of 47%. The existence of the father's income, however, is considered the compensating factor that allows the borrower to have a DTI ratio greater than 45%.



**Sample scenarios are intended for informational purposes only; depending on other risk factors not shown in this example, the Desktop Underwriter® (DU®) recommendation may differ. See page 2 for details on non-borrower household income requirements.*

Non-borrower household income requirements

- Non-borrower household income must be underwritten in DU.
- Non-borrower income must be at least 30 percent of the total monthly qualifying income being used by the borrower(s). (Note: Income from more than one non-borrower household member may be considered.)
- Non-borrower income is **not** considered part of qualifying income.
- Non-borrower household members may be relatives or non-relatives, including a spouse who is not on the loan.

The non-borrower must 1) document his or her income, and 2) sign a statement of intent to reside with the borrower(s) for a minimum of 12 months. (See optional Fannie Mae Form 1019.)

For more information on non-borrower household income, refer to Selling Guide section B5-6-03, HomeReady Mortgage Underwriting Methods and Requirements, Non-Borrower Household Income.

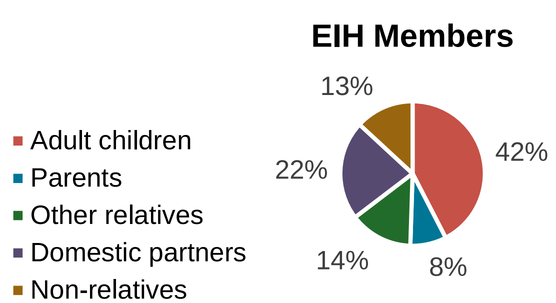
What is an extended-income household?

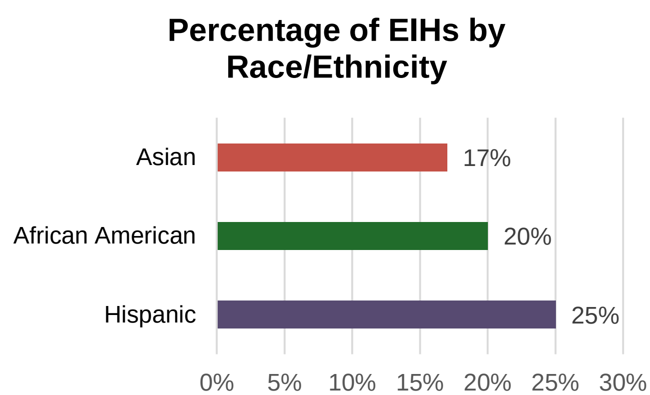
EIHs (for our purposes, limited to homeowners with a mortgage) are defined as households in which a member other than the mortgage holder has an income equal to at least 30 percent of that of the borrower(s).

Who lives in EIHs?

Among all households with a mortgage (based on 2013 data – the most recent available), 14 percent are EIHs. And, among all households with a mortgage, 25 percent of Hispanic, 20 percent of African American, and 17 percent of Asian households are EIHs with one or more adults having combined income equal to at least 30 percent of that of the borrower(s).

EIH members include adult children, parents, other relatives, domestic partners, and non-relatives.





Source: Fannie Mae analysis of the U.S. Census American Community Survey (ACS), 2013 1-Year Public Use Microdata Sample (PUMS).

> NOTE: *According to the National Association of Realtors, 13 percent of home purchases in 2015 were made by multigenerational households.*

Find more HomeReady resources at https://www.fanniemae.com/singlefamily/homeready.