

# UPDATE

February 28, 2008



Attn: Wholesale Brokers  
- Soft & Distressed Markets Policy

To address declining values and high risk markets, effective immediately properties located in a soft or distressed market will require a 5% reduction to the maximum allowable financing (LTV and CLTV). The soft market policy and associated reduction to the maximum allowable financing applies to all programs. Soft or distressed markets can be recognized by:

- 🇺🇸 The appraiser indicates declining property values and/or an oversupply of homes for sale, and/or a marketing time over 6 months.
- 🇺🇸 Desktop Underwriter messaging under guidelines outlined in FNMA Announcement 07-22
- 🇺🇸 USA Direct Funding internal due diligence
- 🇺🇸 For loans over 80% LTV if the property is located in an MSA/County noted on MGIC's Restricted Market list, PMI's Distressed Market list or Radian's Declining Market list
- 🇺🇸 If a quarter-over-quarter decline in the Office of Federal Housing Enterprise Oversight (OFHEO) MSA-level house price index occurs in the MSA for the property

We will post links on our website to these relevant lists on our "Broker Tools" page and they are included with this update.

## Specific guidance on Fannie Mae Flexible 100<sup>TM</sup> Program:

If a loan is submitted to DU for consideration under the Flex 100 program and receives an Approve/Eligible result, but is located in an appraiser, insurer or USA Direct Funding identified or DU designated soft market, then the maximum financing must be reduced by 5%. If the maximum financing has been reduced to 95% LTV/CLTV the following guidance applies:

### Purchase and Limited Cash-out Refinance Transactions

- 🇺🇸 If the borrower is using "flexible" sources of funds for the down payment or closing costs, the loan must be re-decisioned through DU at 95% and committed as a Flexible 97. Pricing and mortgage insurance coverage should be based on the actual LTV of the loan.
- 🇺🇸 If the borrower is not using "flexible" sources of funds for the down payment or closing costs the loan may close as a standard 95% purchase or limited cash-out refinance transaction. The loan must be underwritten to the guidelines of the standard 95% transaction. Pricing and mortgage insurance coverage should be based on the actual LTV and loan program. Soft or declining market 5% LTV reduction would then apply, making it a 90% transaction.

To make it easier to calculate, on the next page are matrices that detail the maximum allowable financing for our conforming loan programs. One matrix is for **standard markets** and one is for properties located in a **soft market**.

## CONFORMING LOAN PROGRAMS

**\*FLEX 100%-90% TRANSACTIONS = 5% LTV REDUCTION IN SOFT MARKETS**

### STANDARD MARKETS

### SOFT MARKETS

#### FULL DOC PURCHASE OR LIMITED CASH OUT REFINANCE – FULLY AMORTIZING

Property Type	Owner Occupied	Second Home	Investment
1 unit	100%	95%	90%
2 units	95%	N/A	90%
3-4 units	80%	N/A	75%

Property Type	Owner Occupied	Second Home	Investment
1 unit	95%	90%	85%
2 units	90%	N/A	85%
3-4 units	75%	N/A	70%

#### FULL DOC CASH OUT REFINANCE – FULLY AMORTIZING

Property Type	Owner Occupied	Second Home	Investment
1 unit	90%	90%	85%
2 units	90%	N/A	85%
3-4 units	75%	N/A	70%

Property Type	Owner Occupied	Second Home	Investment
1 unit	85%	85%	80%
2 units	85%	N/A	80%
3-4 units	70%	N/A	65%

#### FULL DOC PURCHASE OR LIMITED CASH OUT REFINANCE – INTEREST ONLY

Property Type	Owner Occupied	Second Home	Investment
1 unit	95%	95%	90%
2 units	90%	N/A	90%
3-4 units	80%	N/A	N/A

Property Type	Owner Occupied	Second Home	Investment
1 unit	90%	90%	85%
2 units	85%	N/A	85%
3-4 units	75%	N/A	N/A

#### FULL DOC CASH OUT REFINANCE – INTEREST ONLY

Property Type	Owner Occupied	Second Home	Investment
1 unit	90%	90%	70%
2 units	90%	N/A	70%
3-4 units	75%	N/A	N/A

Property Type	Owner Occupied	Second Home	Investment
1 unit	85%	85%	65%
2 units	85%	N/A	65%
3-4 units	70%	N/A	N/A

*Not an accurate reflection of USA Direct Funding's products or offerings. For informational use by residential lending professionals only, and not for consumer use or distribution. Rates and terms are subject to change without notice. Loans subject to credit approval. This does not represent an offer to enter into a loan agreement with USA Direct Funding. Not all products are available in all areas. Information deemed reliable but not guaranteed. Thank you.*

## **Links of interest for assistance in determining if the property is located in a “soft” or “distressed” market**

- 1) Fannie Mae Announcement 7-22 detailing declining markets policy.  
<https://www.efanniemae.com/sf/guides/ssg/2007annlenltr.jsp>
- 2) Office of Federal Housing Enterprise Oversight MSA Price Index:  
<http://www.ofheo.gov/hpi.aspx>
- 3) In addition to those above, for loans over 80% LTV that require mortgage insurance; the following resources will be used:  
<http://www.mgic.com/guides/restrictedmarkets.html>  
  
<http://www.pmi-us.com/guidelinechanges/>  
  
<http://radian.biz/pdf/Radian%20Declining%20MSAs.pdf>