

Higher Down-Payment Requirements Coming in November

By: Ted Rood | Fri, Oct 11 2013, 5:10 PM

On November 16, Fannie Mae will implement scheduled changes to its automated underwriting system (DU or "Desktop Underwriter"). DU is used by lenders to approve loans, and several of the changes will make it harder for some borrowers to qualify. These include tougher debt calculations for Adjustable rate loans; a complete removal of interest-only options; a maximum loan term of 30yrs (instead of 40), and stricter requirements for down payments, increasing the minimum amount from 3% to 5% of the purchase price.

FHA (buyers' primary low down payment financing option) raised its monthly and upfront fees this spring, and also made borrowers' monthly mortgage insurance premium (MIP) effective for the life of most loans. This vastly increased lifetime costs for FHA borrowers.

After those changes, the upfront MIP added to an FHA borrowers' loan on a \$200,000 purchase is now \$3,377.50 compared to **no upfront cost** for conventional loans. As a result, FHA loans have become **far less desirable** for borrowers who qualify for other options.

With costs rising so much for FHA financing, the 3% down Fannie Mae loan program has been a popular alternative. A 700 score buyer currently pays \$202.08 monthly for mortgage insurance (PMI), on a \$200,000 purchase versus \$201.04 monthly MIP on an FHA loan. The cost of PMI varies with credit scores for conforming loans (unlike FHA). Another important difference is that the **PMI cost is removed** when buyers reach 22% equity, a significant advantage over FHA loans.

Effective with loans submitted to DU after 11/16, buyers will need 5% minimum down payment versus the current 3%. While increased down payments could deter some buyers, there are still **significant Fannie Mae advantages** over FHA: they have no upfront mortgage insurance costs, and 5% down Fannie loans also have lower PMI costs than either FHA or current 3% down loans (\$136.17 monthly for a \$200,000 purchase buyer with 700 scores). Buyers can also utilize gifts from family members for their entire down payment on Fannie Mae loans (as with FHA).

While specific lenders have varying guidelines (some require buyers provide their own down payments), for borrowers meeting Fannie Mae's guidelines, 5% down loans continue to be enjoy substantial advantages over FHA loans. Buyers wanting to utilize Fannie's 97% program will need to be under contract by early November so their lenders can run the current version of DU prior to the update on Nov 16.

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