Fannie Mae pulls a 2006-style credit ease…this changes things.

QUESTION: How do you know you that you are past mid-stage in a housing bubble?
QUESTION: How do you know that the overlords are worried about a housing market correction?
QUESTION: How do you know the keepers-of-the-economy are worried that the mortgage-refi-capital-conveyor belt coming to a halt will drag the US into recession?

ANSWER: Because Fannie Mae just eased credit guidelines to such a degree -- specifically, ratcheted higher Debt-to-Income Ratio tolerances from 43% to 50% of GROSS INCOME – purchasing/refinancing power was increased over 20% instantly.

Remember, counter-cycle credit guidelines – loosening credit guidelines to a fight tightening credit cycle -- is exactly what created BUBBLE 1.0 from 2003 to 2007.

Additionally, Fannie made it much easier for self-employed borrowers and ratcheted higher the LTV/CLTV/HCLTC allowances to 95% on all their loans (including interest only) to match the current 30-year fixed guidelines.

Bottom line: This changes things at the margin; **INCREASES PUCHASE & REFINANCE POWER good credits by 22% and requires less down/equity, in order to compete with FHA**. Put another way, somebody can suddenly buy 22% more house, or refinance a much larger loan, than they could previously on the same income with less down, or equity respectively.

BUT, this will also make it so the ultimate reversion to the mean is that much more destructive.

ITEM 1) MY CHART SHOWS THAT GOING FROM 43% TO 50% DTI INCREASES PURCHASING POWER BY 22%.

43% vs 50% DTI MEANS A LOT

- **The 1st column shows you could buy a $370k house with an income of $66k under the OLD, 43% DTI guidelines.**
- **NOW, (2nd column) you can buy a $450k house with the same income under the NEW, 50% DTI guidelines.**

Note, this assumes 20%, which is rare. At 5% down, purchase prices decline substantially but the 20% increase remains intact.

FANNIE MAE DTI INCREASE ANALYSIS. BUYERS CAN PURCHASE 22% MORE HOME WITH THE SAME MONTHLY INCOME.			
	43% DTI	50% DTI	Results
Metrics/Terms	2016 - 30-Year Fixed @ 43% DTI	2017 - 30-Year Fixewd @ 50% DTI	Change 43% DTI vs 50% DTI
Rate	4.25%	4.25%	
Popular Loan Type of era	30-Fixed	30-Fixed	
House Price	$370,000	$450,000	22%
Loan Amount@20% Dn	$296,000	$360,000	22%
Mo Payment	$1,456	$1,771	22%
Tax & Ins	$385	$469	22%
Other debt	$500	$500	0%
Total Mo Payment	$2,341	$2,740	17%
Qualifying DTI of the era	43%	50%	
Monthly Income needed	$5,500	$5,500	0%
Ann Income needed	$66,000	$66,000	0%

ITEM 2) FANNIE MAE EASES GUIDELINES TO COUNTER RATE INCREASES (JUST LIKE DURING BUBBLE 1.0)

RED HIGHLIGHTS ARE MY EMPAHSIS. mH

New Fannie Mae DU Version Eases DTI Requirements

by: Jann Swanson

May 31 2017, 10:55AM

Fannie Mae has announced changes in underwriting for loans submitted to its Desktop Underwriter (DU), Version 10.1. The new DU version will be implemented on or after the weekend of **July 29**. The changes are outlined in release notes issued on Tuesday and will apply to new loan casefiles submitted to DU on or after the weekend of July 29, 2017. Loan casefiles created in DU Version 10.0 and resubmitted after the weekend of July 29 will continue to be underwritten through DU Version 10.0.

Among the more significant changes accompanying the new version are the following.

- **The maximum allowable debt-to-income (DTI) ratio that can be submitted in DU will be 50%. For DTIs between 45 and 50 percent, certain additional compensating factors will no longer be required. Cases exceeding a 50 percent DTI will receive an "ineligible" recommendation.**
- **The criteria that determines the documentation required to verify a self-employed borrower's income will be updated and the number of DU loan casefiles eligible for the one year of personal and business tax return documentation requirements will increase.**
- **The maximum allowable LTV, CLTV, and HCLTV ratios (LTV ratios) for adjustable-rate mortgages will be aligned with fixed-rate mortgage LTV ratios for all transaction, occupancy, and property types, up to a maximum of 95%.** Additional information on the effective dates of this change will be available in the Selling Guide.
- **A loan casefile with a disputed tradeline that is approved with that information will** no longer **require further action**. If such a loan casefile does not receive an Approve recommendation, the lender must determine the accuracy and completeness of the tradeline information. If the borrower is responsible and the information accurately and completely reports the account, then the lender may manually underwrite the loan if it is eligible. **Tradelines reported as medical debt will continue to be excluded from the disputed tradeline identification and lenders are not required to investigate disputes.**
- DU is regularly reviewed to determine if its risk analysis is appropriate. Version 10.1 will include an update to this risk assessment and it is expected to **increase the percentage of Approve/Eligible** recommendations received by lenders, particularly those with DTI rations between 45 and 50 percent.

The new DU version will also contain changes in or will generate new messages about underwriting issues in the following areas:

- Income and Employment Updates
- Property Inspection Waivers
- Student Loan Cash-Out Refinance
- Employment Offers
- Multiple Financed Properties

- Site Condo Reviews
- Timeshares
- Homebuyer Education

Version 10.1 will also support the final Consumer Financial Protection Bureau rule implementing amendments to the Home Mortgage Disclosure Act (HMDA) which modified the reportable data requirements related to collection of information of borrower ethnicity, race, and gender.

Fannie Mae says that with the release of the DU Version 10.1, **Version 9.3 will be retired**. Effective the weekend of July 29, resubmissions of loan casefiles to the old version will not be accepted although applications and Underwriting Findings reports will still be available for viewing. To obtain an updated underwriting recommendation after the retirement date customers must create a new loan casefile.

PARTY ON!

Thank you,

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