Chapter 4501: Home Possible® Mortgages

4501.1: Eligible and ineligible Home Possible® Mortgages (06/04/25)

This section contains requirements related to:

- Loan purpose for Home Possible® Mortgages
- Eligible Mortgages
- Ineligible Mortgages

(a) Loan purpose for Home Possible Mortgages

A Home Possible Mortgage must be either a purchase transaction or "no cash-out" refinance.

(b) Eligible Mortgages

Home Possible Mortgages eligible for sale to Freddie Mac must be First Lien Mortgages that are fully amortizing and must be one of the following conventional Mortgage Products:

- Fixed-rate Mortgages
- 7/6-Month or 10/6-Month ARMs
- 5/6-Month ARMs if secured by a property other than a Manufactured Home

Home Possible Mortgages, other than Mortgages secured by Manufactured Homes, must have an original maturity date not greater than 30 years.

Home Possible Mortgages secured by Manufactured Homes must have a maximum original maturity not greater than that specified in Section 5703.8(a).

(c) Ineligible Mortgages

Mortgages with the following characteristics are not eligible for sale to Freddie Mac as Home Possible Mortgages:

- Financed Permanent Buydown Mortgages
- Freddie Mac Enhanced Relief Refinance Mortgages®
- Government Mortgages

- HeritageOne® Mortgages
- HomeOne® Mortgages
- Mortgages with capitalized balances as described in Chapter 4403
- Refi Possible® Mortgages
- Seller-Owned Converted Mortgages

4501.2: Temporary subsidy buydown plans for Home Possible® Mortgages (03/05/25)

Temporary subsidy buydown plans allow the Borrower to benefit from temporary subsidies of the monthly payment of principal and interest.

Temporary subsidy buydown plans as described in Section 4204.3 are permitted for Home Possible® Mortgages secured by 1- to 2-unit properties, other than Manufactured Homes.

If a Home Possible Mortgage with a temporary subsidy buydown plan is subject to secondary financing, the secondary financing must have a fixed-interest rate. This includes an Affordable Second® that requires repayment to begin before the Due Date of the 61st monthly payment under the Home Possible Mortgage.

4501.3: Eligible property and appraisal requirements for Home Possible® Mortgages (06/04/25)

This section contains requirements related to:

- Eligible property
- Appraisal requirements

(a) Eligible property

A Home Possible® Mortgage must be secured by a 1- to 4-unit Primary Residence.

Home Possible Mortgages secured by Manufactured Homes must comply with all requirements of Chapter 5703 and this chapter.

Mortgages secured by a CHOICEHome® Manufactured Home must comply with the requirements of Section 5703.12 and this chapter.

Home Possible Mortgages may be secured by a Cooperative Unit if permitted under the Seller's Purchase Documents and must comply with the requirements of Chapter 5705.

(b) Appraisal requirements

The Seller must obtain an appraisal that meets the property eligibility and appraisal requirements of Topic 5600 unless the Last Feedback Certificate includes an automated collateral evaluation (ACE) offer stating that the Mortgage is eligible for collateral representation and warranty relief with an ACE appraisal waiver or ACE+ PDR and the Seller has accepted the offer.

Note: See Section 5602.3 for more information on ACE appraisal waivers or Section 5602.4 for ACE+ PDR.

4501.4: Eligible Borrowers for Home Possible® Mortgages (09/04/24)

This section contains requirements related to:

- Income limits
- Occupancy
- Ownership of other property

(a) Income limits

The Borrower's qualifying income, converted to an annual basis, must not exceed 80% of the Area Median Income for the location of the Mortgaged Premises.

To determine whether the Borrower's income exceeds the income limits, the Seller must rely on the income used to qualify the Borrower.

- For **Loan Product Advisor® Mortgages**, Loan Product Advisor will determine the income eligibility of the Mortgage

- For Non-Loan Product Advisor Mortgages, the Seller must use the **Home Possible® Income & Property Eligibility tool**. The Seller may not use other published Area Median Income versions (such as those posted on **https://www.huduser.gov/portal/home.html**) to determine Mortgage or product eligibility.

(b) Occupancy

(i) Occupancy requirement

At least one Borrower must occupy the property secured by a Home Possible Mortgage as their Primary Residence.

(ii) Requirements for Mortgages with non-occupying Borrowers

Non-occupying Borrowers are permitted, provided that:

- The Mortgage is secured by a 1-unit property
- The loan-to-value (LTV), total LTV (TLTV), and Home Equity Line of Credit (HELOC) TLTV (HTLTV) ratios must not exceed:
  - ❑ 95% for Loan Product Advisor Accept Mortgages, except that for fixed-rate Mortgages with Affordable Seconds®, the TLTV ratio must not exceed 105%
  - ❑ 90% for Manually Underwritten Mortgages, except that for fixed-rate Mortgages with Affordable Seconds, the TLTV ratio must not exceed 105%
- For Manually Underwritten Mortgages, the occupant Borrower's:
  - ❑ Monthly housing expense-to-income ratio should not exceed 35% of the occupant Borrower's stable monthly income; and
  - ❑ Monthly debt payment-to-income (DTI) ratio must not exceed 43% of the occupant Borrower's stable monthly income

Note: Funds used to qualify for the Mortgage may come from the occupying and/or the non-occupying Borrower.

(c) Ownership of other property

The occupying Borrower(s) must not have an ownership interest in more than two financed residential properties, including the subject property, as of the Note Date, or the Effective Date of Permanent Financing for Construction Conversion and Renovation Mortgages.

4501.5: Underwriting requirements for Home Possible® Mortgages (09/04/24)

This section contains requirements related to:

- Loan Product Advisor®
- Manually Underwritten Mortgages

A Home Possible® Mortgage may be submitted to Loan Product Advisor or may be a Manually Underwritten Mortgage, except as otherwise stated below.

(a) Loan Product Advisor

The Borrower's credit reputation is acceptable if the Mortgage is submitted to Loan Product Advisor in accordance with Chapter 5101 and receives a Risk Class of Accept.

A Home Possible Mortgage that is a **super conforming Mortgage** must be submitted to Loan Product Advisor and receive a Risk Class of Accept.

(b) Manually Underwritten Mortgages

Manually Underwritten Mortgages must meet the requirements of this chapter and Topics 5100 through 5500

Each Borrower individually, and all Borrowers collectively, must have an acceptable credit reputation as described in Topics 5100 and 5200.

An individual Borrower with **insufficient credit history** for whom the Seller cannot document a credit reputation because the Borrower does not have sufficient credit history, is considered to have an acceptable credit reputation provided that:

- The Borrower has no evidence of any derogatory credit, such as a lien, judgment or collection, paid or unpaid, reflected on the credit report or elsewhere in the Mortgage file, and
- At least one other Borrower whose income and assets are used for qualification has an acceptable credit reputation as described in Topics 5100 and 5200

For Manually Underwritten Mortgages, the **minimum Indicator Scores** are:

Property/Mortgage type	Minimum Indicator Score
1-unit fixed-rate Mortgages that are purchase transactions	660
■ 1-unit ARMs ■ 1-unit Mortgages that are "no cash-out" refinance transactions	680
2- to 4-unit properties	700
Manufactured Homes	680

Exception: When **none of the Borrowers has a usable Credit Score,** a minimum Indicator Score is not required if:

- The requirements of Chapter 5202 are met;
- The LTV, TLTV and HTLTV ratios are less than or equal to 95%;
- The Mortgage is not secured by a Manufactured Home; and
- Each Borrower's credit history for the most recent 24 months shows:
  - No unpaid judgments, tax liens or collections
  - No payments 60 days or more past due
  - No more than two payments 30 days past due
  - No housing payments past due

4501.6: Borrower income and qualifying ratios for Home Possible® Mortgages (02/05/25)

This section contains requirements related to:

- Rental income from 1-unit Primary Residence
- Contribution to total qualifying income from Borrowers with insufficient credit history

- Qualifying ratios

Home Possible® Mortgages must comply with the requirements of Topics 5300 and 5400 and the requirements of this section. In the event of a conflict, the Seller must comply with the requirements of this section.

(a) Rental income from 1-unit Primary Residence

Rental income from a 1-unit Primary Residence may be considered stable monthly income (as defined in Section 5301.1) provided it meets the general eligibility requirements in Section 5306.1(a) AND:

- Section 5306.1(g) for rental income generated from an ADU, OR
- Section 5306.1(h) for rental income from a live-in aide OR
- The following requirements:
  - The person providing the rental income:
    - Must not be obligated on the Mortgage and must not have an ownership interest in the Mortgaged Premises
    - Must have resided with the Borrower for at least one year
    - Will continue residing with the Borrower in the new residence
    - Must provide appropriate documentation to evidence residency with the Borrower (e.g., driver's license, bill, bank statement, etc., showing their address matches the Borrower's address)
    - Cannot be the Borrower's spouse or domestic partner
  - Rental income from the person residing in the Mortgaged Premises:
    - Must have been paid to the Borrower for the past 12 months
    - Can be verified through evidence showing receipt of regular payments of rental income to the Borrower for at least nine of the past 12 months (e.g., copies of canceled checks)
    - Must be averaged over 12 months for qualifying purposes if fewer than 12 months of payments are documented
    - Cannot exceed 30% of total income used to qualify for the Mortgage

- ❑ The Mortgage file must contain a written statement in the form of a signed letter or e-mail directly from the Borrower affirming:
  - The source of the rental income
  - The fact that the person providing the rental income has resided with the Borrower for the past year and intends to continue residing with the Borrower in the new residence for the foreseeable future

(b) Contribution to total qualifying income from Borrowers with insufficient credit history

For Manually Underwritten Mortgages, the Seller may consider as qualifying income, the income contributed by a Borrower with insufficient credit history, as described in Section 4501.5(b), provided the amount contributed by the Borrower with insufficient credit history is not more than 30% of the total qualifying income.

(c) Qualifying ratios

There is no maximum monthly housing expense-to-income ratio.

Debt payment-to-income ratios must not exceed the following limits:

Underwriting path	**Home Possible Mortgages**
Loan Product Advisor Mortgages	Determined by Loan Product Advisor
Manually Underwritten Mortgages	45%

4501.7: Loan-to-value (LTV)/total LTV (TLTV)/Home Equity Line of Credit (HELOC) TLTV (HTLTV) ratios, Borrower contribution, reserves, sources of funds for Home Possible® Mortgages (06/04/25)

This section contains requirements related to:

- Loan-to-value (LTV)/total LTV (TLTV)/Home Equity Line of Credit (HELOC) TLTV (HTLTV) ratios, Borrower contribution
- Reserves
- Sources of funds

(a) LTV/ TLTV/HTLTV ratios, Borrower contribution

(i) LTV/TLTV/HTLTV ratios

The following requirements apply to purchase and “no cash-out” refinance transactions:

Property type	**Maximum LTV/TLTV/HTLTV ratios for Mortgages other than super conforming Mortgages**	**Maximum LTV/TLTV/HTLTV ratios for super conforming Mortgages**
Fixed-Rate Mortgages		
1-unit	97%*	95%*
2-unit	95%*	85%
3- and 4-unit	95%*	80%
ARMs		
1-unit	95%*	95%
2-unit	95%*	85%
3- and 4-unit	75%*	75%
Manufactured Home	See Chapter 5703	N/A

*A TLTV ratio up to 105% is permitted when secondary financing is an Affordable Second.

Note: See Section 4501.1(b) for additional information for Home Possible Mortgages that are ARMs, and for Affordable Seconds, see Section 4204.2.

(ii) Other Guide provisions related to LTV/TLTV/HTLTV ratios for Home Possible Mortgages

Topic	**Guide section**
Maximum LTV/TLTV/HTLTV ratio requirements for Mortgages secured by a unit in a Condominium Project with a streamlined project review	Section 5701.4

Home Possible Mortgages with RHS Leveraged Seconds	Section 4205.2
Value requirements applicable to Community Land Trust Mortgages	Section 4502.5(b)
Home Possible Mortgages with non-occupying Borrowers	Section 4501.4
Texas Equity Section 50(a)(6) Mortgages	Section 4301.7
Value determination requirements applicable to CHOICERenovation® Mortgages	Section 4607.4(d)
Maximum LTV/TLTV/HTLTV ratio requirements for and value calculation requirements for CHOICEHome® Mortgages	Section 5703.12(g)

(iii)Borrower contribution requirements

For purchase transactions, the following requirements apply to the minimum contribution from Borrowers personal funds, as described in Section 4501.7(c)(i):

Minimum contribution			
Property Type	**Home Possible Mortgages with LTV, TLTV and HTLTV ratios ≤ 80%**	**Home Possible Mortgages with LTV, TLTV or HTLTV ratios > 80% and ≤ 95%**	**Home Possible Mortgages with LTV, TLTV or HTLTV ratios > 95%**
1-unit	None	None	None
Manufactured Home	None	None	N/A
2- to 4-unit	None	3% of value	3% of value

(b) Reserves

For Loan Product Advisor® Mortgages, the Seller must verify all reserves required by Loan Product Advisor, as stated on the Feedback Certificate.

For **Manually Underwritten Mortgages**, the Borrower must have the following minimum reserves, using the monthly payment amount as described in Section 5501.2 and must meet the asset eligibility and documentation requirements in Sections 5501.3 and 5501.4:

- 1-unit: None required
- 2- to 4-unit: Two months

(c) Sources of funds

The following sources of funds are permitted and must meet the requirements in Sections 4501.7(c)(i) and (ii) below:

Use	**Permitted sources of funds**
Minimum Borrower contribution	Borrower personal funds
Down Payment	■ Borrower personal funds ■ Other eligible sources of funds
Paying down the principal balance of the Mortgage being refinanced for a "no cash-out" refinance transaction	■ Borrower personal funds ■ Other eligible sources of funds
Closing Costs	■ Borrower personal funds ■ Other eligible sources of funds ■ Flexible sources of funds
Reserves	■ Borrower personal funds ■ Other eligible sources of funds

(i) Borrower personal funds

For Home Possible Mortgages, Borrower personal funds include:

1. **Borrower personal funds** as described in Section 5501.3

2. **Cash on hand**

   The following requirements must be met:

- The Seller reasonably concludes and supports that the Borrower is a cash-basis individual
- The cash on hand is not borrowed and could be saved by the Borrower

The Mortgage file must contain the following documentation supporting the Seller's conclusion:

Documentation required to support the Seller's conclusion	
Topic	**Documentation**
Positive residual income	■ Documentation confirming positive monthly residual income available for savings ■ Use of Exhibit 23, Monthly Budget and Residual Analysis Form, is optional; however, it reflects information that may be necessary to confirm positive residual income
Recurring obligations customarily paid in cash	Copies of six months' cash receipts (e.g., rent or utility receipts) or other alternative documentation (e.g., direct verifications or wire transfers) meeting the requirements of Section 5202.2(b), to verify that recurring obligations, including revolving and installment debt, are customarily paid in cash
Credit report	■ A credit report obtained at loan application meeting the requirements of Section 5203.1, showing no more than three Tradelines, and ■ An updated credit report obtained approximately one week before closing, showing no new accounts or no substantial increase in existing accounts that approximates, or exceeds, the amount of cash on hand provided by the Borrower
Revolving accounts	Copies of three months' statements for any open revolving account showing cash advances are not the source of Borrower funds. Any cash advances must be explained and documented (i.e., a cash advance used in an emergency situation).
Funds used to qualify the Borrower	Evidence that all funds used to qualify the Borrower for the Mortgage transaction are deposited in a financial institution or are held in an institutional escrow account before closing

The Mortgage file must have no indication that the Borrower typically uses checking, savings or similar accounts.

(ii) Other eligible sources of funds

For Home Possible Mortgages, other eligible sources of funds used to qualify the Borrower include:

1. **Other eligible sources of funds** as described in Section 5501.4

2. **Gift or grant from the Seller** as the originating lender, provided that a contribution of at least 3% of value (as described in Section 4203.1(a)) must come from Borrower personal funds and/or other eligible sources of funds.

   The gift or grant must not be funded through the Mortgage transaction, including differential pricing in rate, discount points, or fees for individual loans or across the Home Possible Mortgage offering.

3. For a purchase transaction, **unsecured loan proceeds**

   Unsecured loan proceeds must be from one of the following sources:

   - A Related Person

   - A Community Savings System (funds exceeding the Borrower's contribution to the Community Savings System)

   - Except as stated in item 6 below, an Agency that is not:

     - ❑ The Seller or participated in any aspect of the Mortgage origination process

     - ❑ Affiliated with, under contract to, or financed (directly or indirectly) by the Seller or any party that participated in the Mortgage origination process.

       For these purposes, "affiliated with" means that the Agency and the Seller or other party are related to each other as a consequence of one entity directly or indirectly controlling the other party, being controlled by the other party or being under common control with that party.

   An unsecured loan must meet the following requirements:

   - Must not contain provisions that allow or could result in negative amortization

   - Must have a maturity date that:

     - ❑ Does not exceed the maturity date of the Mortgage

- Is at least five years after the Note Date of the Mortgage, unless the unsecured loan is fully amortizing

- Must have an interest rate that is no greater than the Note Rate on the Mortgage
- Must not be a cash advance from a credit card or unsecured line of credit
- Must have its source, terms and conditions documented on the Form 65, Uniform Residential Loan Application

If the monthly payment begins on or after the 61st monthly payment under the First Lien Mortgage or if repayment of the loan is due only upon sale or default, the monthly payment amount may be excluded from the monthly debt payment-to-income ratio; otherwise, the required monthly payments must be included in calculating the monthly debt payment-to-income ratio.

4. **Sweat equity for Home Possible Mortgages**

Sweat equity is credit for labor performed on the Mortgaged Premises and/or materials furnished for the Mortgaged Premises by the Borrower. This credit must be fully explained and documented.

Any labor performed must be completed in a skillful and workmanlike manner to support the appraised value. A certification of completion (Form 442) must be obtained verifying the work has been completed.

(A) Eligible repairs and improvements

Sweat equity is an eligible source of funds in connection with the following repairs and improvements:

- Repairs and improvements to be completed by the Borrower listed in the sales contract and included in the appraisal report
- Repairs or improvements reflected on the appraisal report that are outstanding at the time of the appraisal (no credit for work completed prior to the original property inspection by the appraiser)

(B) Determining the value of the sweat equity

The value of the sweat equity that may be used as an eligible source of funds equals the value of the labor performed plus the value of the materials furnished, documented as follows:

- Labor: Value must be estimated by the appraiser or a cost estimating service, and documented in the appraisal report or separately in the Mortgage file; and

- Materials: Value must be estimated by the appraiser or a cost estimating service, or calculated using receipts from the purchase of materials. Estimates or costs as evidenced by receipts must be documented in the Mortgage file.

(C) Maximum LTV and TLTV ratios

For Home Possible Mortgages that use sweat equity as an eligible source of funds, the maximum LTV/TLTV ratios in Section 4501.7(a)(i) apply.

(D) No cash out at closing

If sweat equity is used as an eligible source of funds, the Borrower must not receive cash back at closing. Excess funds must result in a reduction of the principal balance on the Mortgage.

(E) Sweat equity as a Down Payment

When sweat equity is used as a source of funds for Down Payment, the full amount of the Borrower's Down Payment can be in the form of sweat equity or a combination of sweat equity and Borrower personal funds as described in Sections 4501.7(c)(i) and 4501.7(c)(ii).

(F) Affordable Seconds

Sweat equity can be combined with an Affordable Second.

(G) Special delivery requirements

See Section 6302.14 for special delivery requirements for Home Possible Mortgages originated with sweat equity as a credit towards the Down Payment and/or Closing Costs.

5. **Proceeds from an Affordable Second or other secondary financing**

   When the TLTV ratio exceeds 97%, the secondary financing must be an Affordable Second.

6. **Funds provided by an Agency** that is affiliated with, under contract to or financed (directly or indirectly) by the Seller as the originating lender, when:

   - The source of funds is an eligible source meeting all applicable Guide requirements (for example, a gift or grant from an Agency must meet the requirements in Section 5501.4);

- A contribution of at least 3% of value (as described in Section 4203.1(a)) is made from Borrower personal funds and/or other eligible sources of funds as described in this section; and

- The source of funds is not funded through the Mortgage transaction (including differential pricing in rate, discount points, or fees for individual loans or across the Home Possible Mortgage offering)

(iii)Flexible sources of funds

For Home Possible Mortgages, flexible sources of funds include:

1. **Financing concessions**: As described in Section 5501.6(b) meeting the applicable interested party contribution requirements of Section 5501.6

2. **Lender credit**: As described in Section 5501.7 and as documented on the Settlement/Disclosure Statement

3. **Unsecured loan proceeds from the Seller as the originating lender** meeting the following requirements:

   - Must not contain provisions that allow or could result in negative amortization

   - Must have a maturity date that:

     - Does not exceed the maturity date of the Mortgage

     - Is at least five years after the Note Date of the Mortgage, unless the unsecured loan is fully amortizing

   - Must have an interest rate that is no greater than the Note Rate on the Mortgage

   - Must not be a cash advance from a credit card or unsecured line of credit

   - Must have its source, terms and conditions documented on Form 65

   If the monthly payments begin on or after the 61st monthly payment under the First Lien Mortgage or if repayment of the loan is due only upon sale or default, the monthly payment amount may be excluded from the monthly debt payment-to-income ratio. Otherwise, the required monthly payments must be included in calculating the monthly debt payment-to-income ratio.

4501.8: Mortgage insurance for Home Possible® Mortgages (09/04/24)

The required coverage levels for mortgage insurance for Home Possible® Mortgages are stated in Section 4701.1.

Lender-paid and financed mortgage insurance premiums described in Section 4701.2 are permitted. See Section 4701.1 for mortgage insurance options available for Mortgages secured by Manufactured Homes.

4501.9: Homeownership education and landlord education for Home Possible® Mortgages (09/04/24)

This section contains requirements related to:

- Homeownership education
- Landlord education (2- to 4-unit Primary Residences)
- Post-purchase and Early Delinquency Counseling

(a) Homeownership education

At least one occupying Borrower must participate in a homeownership education program before the Note Date, or the Effective Date of Permanent Financing for Construction Conversion and Renovation Mortgages, in each of the following instances:

- For purchase transactions when all occupying Borrowers are First-Time Homebuyers, or
- For any transaction when the credit reputation for all Borrowers is established using only Noncredit Payment References

Note: The following are acceptable homeownership education programs:

- Programs provided by HUD-approved counseling agencies, housing finance agencies, community development financial institutions or mortgage insurance companies
- Freddie Mac's free homeownership education course, **CreditSmart® Homebuyer U**
- Programs that meet the National Industry Standards for Homeownership Education and Counseling

Refer to Section 5103.6 for other requirements related to homeownership education.

(b) Landlord education (2- to 4-unit Primary Residences)

- For **purchase transactions**, at least one qualifying Borrower must participate in a landlord education program before the Note Date, or the Effective Date of Permanent Financing for Construction Conversion and Renovation Mortgages. Landlord education must not be provided by an interested party to the transaction, the originating lender or the Seller.

  A copy of a certificate evidencing successful completion of the landlord education program must be retained in the Mortgage file.

Note: For refinance transactions, landlord education is not required but is recommended for Borrowers who have not previously attended a program.

(c) Post-purchase and Early Delinquency Counseling

The Seller, as Servicer, must provide (at no cost to the Borrower) Early Delinquency Counseling to all Borrowers who experience problems meeting their Mortgage obligations, in accordance with Sections 9101.2(c) and 9102.4(c).