# Calculating and Entering the HCLTV and HTLTV

**Suggested Best Practices and Reminders** 

October 2020

#### **Customer Education**

Brought to you by: Genworth Customer Development and Process Consulting

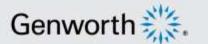


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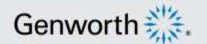
# **Objective**

Understand what LTV, CLTV/TLTV and HCLTV/HTLTV are and how to calculate and enter into the AUS for Fannie Mae and Freddie Mac



### **General Terms You Should Know**

- HELOC Home Equity Line of Credit: A HELOC differs from a conventional loan in that the borrower is not advanced the entire sum up front but uses a line of credit to borrow sums that total no more than the credit limit, similar to a credit card.
- Closed End Subordinate or Second Mortgage: Borrower draws down all funds on day one and may not make any payment plan changes or access any paid-down principal once the loan is closed.
- **UPB**: Unpaid Principal Balance



### **Fannie Mae**

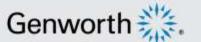
#### LTV, CLTV and HCLTV

- LTV = (Loan to value) = Original loan amount divided by lesser of sales price or appraised value for purchase transactions\*
- CLTV = (Combined loan to value) = Original loan amount, the drawn portion (outstanding principal balance) of a HELOC and the unpaid principal balance of all closed-end subordinate financing divided by lessor of sales price or appraised value for purchases transactions\*
- HCLTV = (High credit loan to value) = Original loan amount, <u>full amount</u> of any HELOCs, whether or not the funds have been drawn, and the unpaid principal balance of all closed-end subordinate financing divided by lessor or sales price or appraised value for purchase transactions\*

https://selling-guide.fanniemae.com/Selling-Guide/Origination-thru-Closing/#Calculation.20of.20the.20CLTV.20Ratio
https://selling-guide.fanniemae.com/Selling-Guide/Origination-thru-Closing/#Calculation.20of.20the.20HCLTV.20Ratio

\*For refinances transactions use the appraised value

Fannie Mae Uses CLTV and HCLTV Whereas Freddie Mac Uses TLTV And HTLTV For Terminology; The Calculations Are The Same



### **Freddie Mac**

Loan Product Advisor® calculates the loan-to-value (LTV) ratio, total LTV (TLTV) ratio, and Home Equity Line of Credit (HELOC) TLTV (HTLTV) ratio based on the data submitted by the Seller.

For Non-Loan Product Advisor Mortgages:

- The LTV ratio is obtained by dividing the First Lien Mortgage amount by value, as defined in Section 4203.1
- The TLTV ratio is obtained by dividing the sum of the First Lien Mortgage amount and the disbursed amount of the HELOC and any other secondary financing by value, as defined in Section 4203.1
- The HTLTV ratio is obtained by dividing the sum of the First Lien Mortgage amount and the total HELOC credit line limit and any other secondary financing by value, as defined in Section 4203.1

To determine if a Mortgage meets LTV, TLTV or HTLTV ratio requirements, round each ratio up to the next whole number.

Freddie Mac will calculate the LTV ratio for each Mortgage it purchases based on data delivered by the Seller. Freddie Mac will calculate the LTV ratio to two decimal places and round the result of that calculation up to the next whole number. For example, 94.01% will be rounded up to 95%.

https://guide.freddiemac.com/app/guide/content/a\_id/1000475

### **Calculations**

#### **Examples of LTV, CLTV/TLTV and HCLTV/HTLTV**

- First Mortgage is \$250,000.
- Closed end second for \$25000
- Sales Price is \$400,000
- Appraised Value is \$400,000
- -LTV = \$250,000/\$400,000 = 62.50%
- -CLTV/TLTV = \$250,000 + \$25,000/\$400,000 = 68.88%
- **HCLTV/HTLTV** = \$250,000 + \$25,000/\$400,000 = 68.88%

Different Products Will Have Different LTV, CLTV or HCLTV Maximum Ratios; Always Check Guidelines To Verify Program Eligibility

### **Calculations**

#### **Examples of LTV, CLTV/TLTV and HCLTV/HTLTV**

- First Mortgage is \$250,000.
- Undrawn HELOC at closing is \$0
- High Credit of the HELOC is \$50,000
- Sales Price is \$400,000
- Appraised Value is \$395,000
- -LTV = \$250,000/\$395,000 = 63.29%
- **CLTV/TLTV** = \$250,000 + \$0 /\$395,000 = 63.29%
- **HCLTV/HTLTV** = \$250,000 + \$50,000/\$395,000 = 75.95%

Different Products Will Have Different LTV, CLTV or HCLTV Ratios; Always Check Guidelines To Verify Program Eligibility

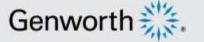
### **Lender Reminders- Fannie Mae**

For each subordinate liability, the lender must determine the maximum credit line for all HELOCs, if applicable, and the unpaid principal balance for all closed-end subordinate financing.

If any subordinate financing is not shown on a credit report, the lender must obtain documentation from the borrower or creditor.

If the borrower discloses, or the lender discovers, new or increased subordinate financing after the underwriting decision has been made, up to and concurrent with closing, the lender must re-underwrite the mortgage loan. (B3-6-02)

https://selling-guide.fanniemae.com/Selling-Guide/Origination-thru-Closing/Subpart-B2-Eligibility/#Calculation.20of.20the.20LTV.20Ratio



# Permanently Modified HELOCs-Fannie Mae

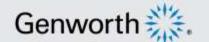
If a lender determines the HELOC has been permanently modified and the outstanding UPB is less than the permanently modified HELOC, the lender must use the modified HELOC amount in calculating the HCLTV ratio for eligibility purposes and for delivery.

The lender must obtain appropriate documentation that the HELOC has been permanently modified and include this documentation in the loan

If the outstanding UPB is greater than the permanently modified HELOC, the lender must use the outstanding UPB to calculate the HCLTV ratio for eligibility purposes and for delivery. The lender must obtain appropriate documentation and include that documentation in the loan file.

In no case may the CLTV exceed the HCLTV ratio

https://selling-guide.fanniemae.com/Selling-Guide/Origination-thru-Closing/Subpart-B2-Eligibility/#Calculation.20of.20the.20LTV.20Ratio



# When to Include a Payment-Fannie Mae

#### **Primary Home**

#### **Monthly Housing Expense**

Monthly housing expense is the sum of the following and is referred to as PITIA for the subject property:

- principal and interest (P&I);
- · property, flood, and mortgage insurance premiums (as applicable);
- · real estate taxes:
- · ground rent;
- · special assessments;
- any owners' association dues (including utility charges that are attributable to the common areas, but excluding any utility charges that apply to the individual unit);
- any monthly co-op corporation fee (less the pro rata share of the master utility charges for servicing individual units that is attributable to the borrower's unit);

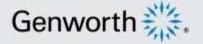


any subordinate financing payments on mortgages secured by the subject property.

#### Home Equity Lines of Credit

When the mortgage that will be delivered to Fannie Mae also has a home equity line of credit (HELOC) that provides for a monthly payment of principal and interest or interest only, the payment on the HELOC must be considered as part of the borrower's recurring monthly debt obligations. If the HELOC does not require a payment, there is no recurring monthly debt obligation so the lender does not need to develop an equivalent payment amount.

https://selling-guide.fanniemae.com/Selling-Guide/Origination-thru-Closing/#Home.20Equity.20Lines.20of.20Credit



# When to Include a Payment-Freddie Mac

Refer to Bylletin 2020-31 for updates to monthly obligation requirements. The revisions may be implemented prior to the mandatory implementation of the November 5, 2020 effective version of this section.

**Primary Home 5401.1** 

#### (a) Calculation of monthly housing expense-to-income ratio

The monthly housing expense is the sum of the following monthly charges on the Borrower's Primary Residence:

- · Principal and interest payments on the Mortgage
- · Property hazard insurance premiums
- Real estate taxes.
  - The real estate tax amount included in the monthly housing expense must be based on the value of the improvements plus the value of the land
  - When the Mortgaged Premises is logated in a jurisdiction where transfer of ownership causes or results in a recalculation of the amount of the recalculated real estate tax a
  - When there is a tax abatement or the monthly housing expense cal abatement and the documentation after the Note Date
- · When applicable:
  - Mortgage insurance premiums
  - · Flood insurance premiums
  - Leasehold payments

#### MONTHLY HOME EQUITY LINE OF CREDIT (HELOC) PAYMENTS

Effective for Mortgages with Settlement Dates on and after November 5, 2020; however, Sellers may implement immediately

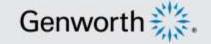
In Bulletin 2020-31, we updated the Guide to require documentation of all monthly payment amounts included in the calculation of monthly housing expenseto-income ratio and total debt payment-to-income ratio, effective on November 5, 2020. This Bulletin provides a flexibility with respect to HELOC payment amounts to permit the use of 1.5% of the outstanding HELOC balance when the HELOC monthly payment amount is not captured in the Mortgage file documentation or in the credit report. Note: Documentation of HELOC terms, including the monthly payment amount, continues to be required for HELOCs originated concurrently with the First Lien Mortgage, as stated in Section 4204.1.

Loan Product Advisor® messaging will be updated accordingly at a later date.

Guide impacts: Sections 5401.1 and 5401.2

- Special assessments with more than 10 monthly payments remaining
- Homeowners association dues (excluding unit utility charges)
- Maintenance Fees (excluding unit utility charges)
- · Payments on secondary financing

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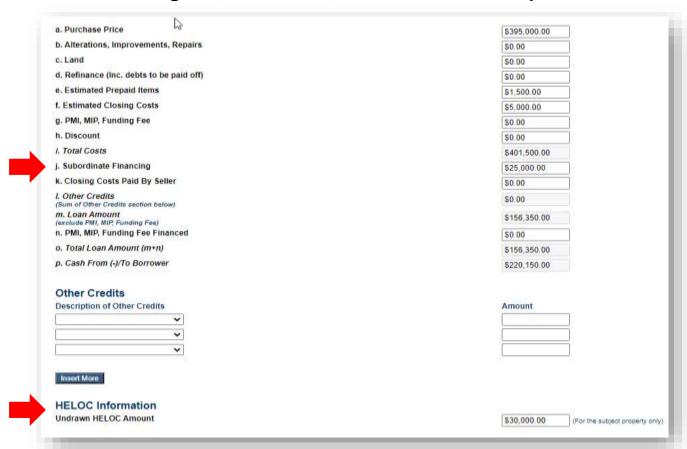


### **Entering in DU®**

HELOC Example where borrower is drawing \$25,000 of a \$55,000 line of credit for a purchase on a

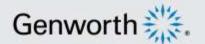
new line of credit

See the Desktop
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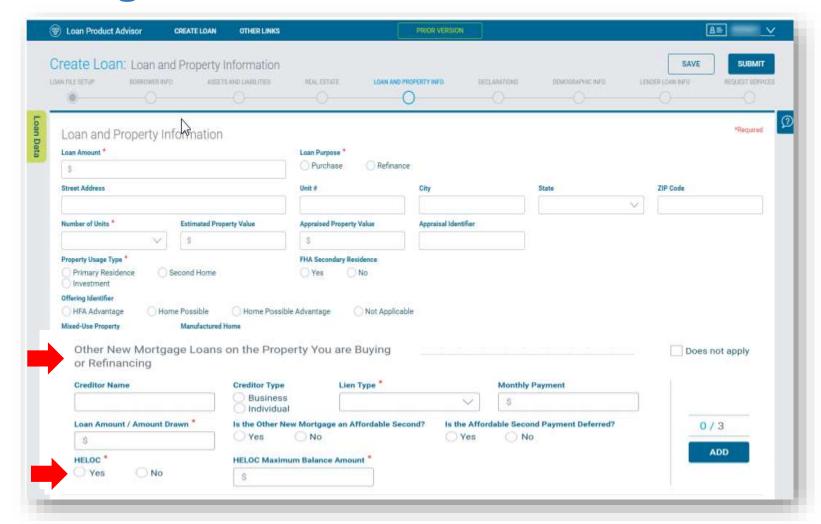


https://singlefamily.fanniemae.com/job-aid/desktopunderwriter/topic/du data entry instructions for subordinate financing.htm#top

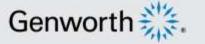
Your LOS May Look Different Or Have Different Data Entry Requirements



# **Entering in Loan Product Advisor®**



Your LOS May Look Different Or Have Different Data Entry Requirements



# **Genworth Underwriting Guidelines**

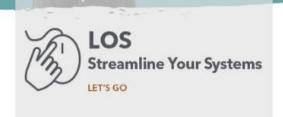


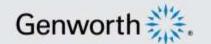


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# **Genworth Underwriting Guidelines**

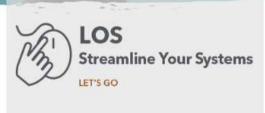


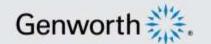


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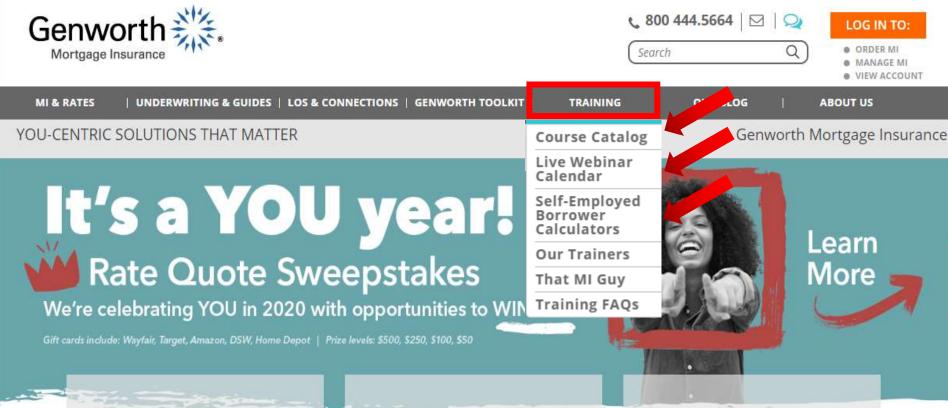
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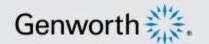
# **Training Tools and Information**











# **Training Tools and Information**

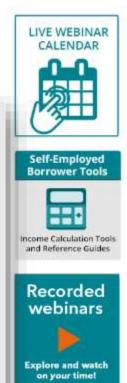
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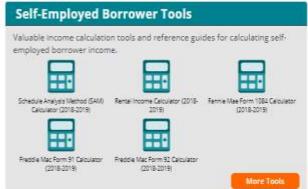
#### Browse by Role





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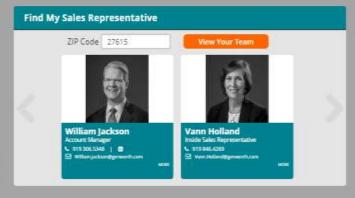












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- ActionCenter®: 800 444.5664
- Your Local Genworth Regional Underwriter
- Your Genworth Sales
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