



## WHOLESALE ANNOUNCEMENT 2019-15

May 16, 2019

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# Guideline Updates

### *FHA*

**1.04.06.04 Co-Borrower for Family Member:** A Borrower with an existing FHA-insured Mortgage on their own Principal Residence may qualify as a non-occupying co-Borrower on other FHA insured Mortgages.

**1.05.03 Primary Employment Salaried or Hourly Wage Earner:** HUD now accepts Third Party Vendor reports. Added the following to the guide under documentation requirements:

- direct electronic verification of employment by a TPV vendor covering two years, subject to the following requirements:
  - the Borrower has authorized the lender to verify income and employment; and
  - the date of the data contained in the completed verification conforms with FHA requirements in Maximum Age of Mortgage Documents.

Re-verification of employment must be completed within 10 Days prior to the date of the Note. Verbal or electronic re-verification of employment is acceptable. Electronic re-verification employment data must be current within 30 days of the date of the verification.

**1.05.06.10 Overtime, Bonus & Tip:** HUD has clarified that Tip income is treated the same as OT and Bonus income. Added Tip Income to this section.

**1.06.02 Checking and Savings Accounts and Certificates of Deposit:** HUD now accepts Third Party Vendor Reports. The following has been added to the guide:

- direct verification by a TPV vendor of the Borrower's account covering activity for a minimum of the most recent available month, subject to the following requirements:
  - the Borrower has authorized the Mortgagee to use a TPV vendor to verify assets; and
  - the date of the data contained in the completed verification is current within 30 days of the date of the verification.



**1.06.06 Gift Funds:** Hud has updated their gift fund requirements when the funds are not verified in the borrower's account (at closing). The guide has been updated to read:

Gift funds are not verified in borrower's account (at closing):

- Gift Letter meeting requirements below
- Obtain Certified Check, Money Order, Wire Transfer or Official Check evidencing payment to the borrower or settlement agent
- Copy of Donor's Bank Statement evidencing sufficient funds for the amount of the gift

**1.06.11 Earnest Money Deposit:** HUD now accepts Third Party Vendor Reports. The following has been added to the guide:

- direct electronic verification by a TPV vendor, subject to the following requirements:
  - the Borrower has authorized the Mortgagee to verify assets;
  - the date of the completed verification conforms with FHA requirements in Maximum Age of Mortgage Documents; and
  - the information shows that the average balance was sufficient to cover the amount of the earnest money deposit at the time of the deposit.

**1.08.06 New Construction:** updated FCM guidelines to match HUD's guides exactly for more clarity of the requirements depending on the LTV and Under Construction vs Existing less than One Year.

## VA

**VA has updated Chapters 1, 4 and 11 of the Handbook. Below are all of the changes made to FCM's guidelines due to the VA updates. **These changes are effective May 23, 2019.****

**1.05.03 Salaried or Hourly Wage Earner:** VA clarified that they will accept Third Party Vendor Reports for income verification. The following has been added to the guideline:

Use of employment verification services is acceptable as long as it has the same information as the "full" verification generated through the "Work Number". A current paystub is not required with an automated employment verification service. The lender **MAY NOT** charge a fee to obtain the employment verification information.



**1.05.03.02 Additional Notations:** VA clarified requirements for seasonal workers. The following has been added to the guidelines:

Additional documentation for a borrower(s) employed in building trades or other seasonal or climate-dependent work must provide, in addition to the standard documentation (VOE and pay stub(s)), the following:

- (a) Documentation of the borrower's total earnings year-to-date,
- (b) Signed and dated individual income tax returns for the previous 2 years, and
- (c) If borrower works out of a union, evidence of the union's history with the borrower.

**1.05.04.07 Military Income Sources/Recently Activated Reserve or National Guard.** The following has been added to the guidelines:

If an activated Reserves/National Guard member applies for a loan, they must present orders indication their current active duty tour is not to exceed 12 months.

There are not any clear-cut procedures that can be applied to all cases. Evaluate all aspects of each individual case, including credit history, accumulation of assets, overall employment history, and make the best decision for each loan regarding the use of income in qualifying for the loan.

It is very important that loan files be carefully and thoroughly documented, including any reasons for using or not using Reserve/National Guard income in these situations.

**1.05.05 Self Employed/Documentation Requirements:** VA has changed the verbiage to if more than one-half of the tax year has passed, a P&L is required. Guidelines have been updated to read:

A profit and loss statement (P&L) and a balance sheet is required if more than one-half of the tax year has passed to verify current income and stability of the income on manual UWs.



**1.05.05.03 Self Employed/Analysis:** VA has updated their guidelines on how to analyze self-employed income. Guidelines have been updated to read:

Depreciation claimed as a deduction on the tax returns and financial statements of the business may be included in effective income.

Business or roll over losses must be considered from all tax returns.

What is reported to the IRS on a joint return must be used when applying for a federally guaranteed loan.

On a joint tax return, the loss must be deducted from the borrower's income in both community and non-community property states.

On a joint tax return, when a borrower and a co borrower have been faced with business losses, the Veteran/borrower and his/her spouse may want to consider both being on the loan in order to potentially qualify. The correct of both borrowers will be considered.

**1.05.19 Unreimbursed Employee Business Expenses:**

Due to changes to the tax law, 2106 tax forms are no longer required to be reviewed for commission borrowers. They are only required to be reviewed for Armed Forces Reservist, qualified performing artists, fee-basis state or local officials and employees with impairment-related work expenses. Those are the only types of expenses that are reportable.

**1.07.09 30-Day Charge Accounts:**

If there are not sufficient funds, a minimum of 5% of the balance should be included.

**1.07.14 Contingent Liabilities/Co-Signed Loans:**

The contingent liability must be included in the debt-to-income ratio, unless there is documentation to evidence the loan payments are being made by someone else for a minimum of 12 consecutive months and the account is current with no history of delinquency.

Evidence such as cancelled checks or automated savings withdrawals will be accepted.

There must also not be a reason to believe the borrower will have to participate in the repayment of the loan.



### 1.07.22 Disputed Accounts:

Underwriters may consider a veteran's claim of bona fide or legal defenses regarding unpaid debts except when the debt has been reduced to a judgment. Account balances reduced to a judgment by a court must either be paid in full or subject to a repayment plan with a history of timely payments. For unpaid debts or debts that have not been paid timely, pay-off of those debts after the acceptability of applicant's credit is questioned does not alter the unsatisfactory record of payment. Underwriters must still review the credit in its entirety and determine if the credit score is an accurate reflection of the borrower's credit history. If it is not, then the loan must be manually downgraded or the disputes can be removed and credit repulled and rerun through the AUS.

## *Jumbo*

### **Select QM**

- Removed the overlay under footnote 2 indicating Agency High Balance loan limits are not eligible for transactions with LTVs greater than 80%. Select QM will now allow a minimum loan amount of \$484,351 for 1-unit properties and \$1 over conforming loan limits for properties with 2-4 units regardless of LTV.
- Removed the overlay under Select QM Loan Notes indicating that loans between conforming loan limits and agency high balance loans are eligible except on loans with LTVs greater than 80%. Select QM will now allow a minimum loan amount of \$484,351 for 1-unit properties and \$1 over conforming loan limits for properties with 2-4 units regardless of LTV.

### **Select Non-QM and Choice Non-QM**

- Added Non-QM attribute for investment properties (subject or non-subject) that are short-term rentals, vacations rentals or seasonal rentals with no lease in place - rental income can be considered if the property is reflected on Schedule E of tax returns for the most recent two years and there is no prohibition or restriction (imposed by city/county) on short-term rentals that impacts rental income received.

### **Choice QM and Choice Non-QM**

- Added requirement prohibiting the waiver of the appraisal delivery date of three business days prior to consummation of loan. HPML loans do not allow the timing requirement to be waived.

### **Select QM, Select Non-QM, Select 90 QM, Choice QM and Choice Non-QM**

- Removed requirement for all appraisals aged more than 120 days from Note date require a new appraisal. Removed recert of value not allowed. See update under Appraisal Requirements for more detail.



**Select QM, Choice QM and Choice Non-QM**

- Removed requirement for loan product to be 20, 25, 30-year fixed only. Non-permanent resident aliens will be allowed on all fixed rate and ARM products for Select QM, Choice QM, and Choice Non-QM programs

**Select QM, Select Non-QM, Select 90 QM, Choice QM and Choice Non-QM**

- Added clarification - borrowed funds (secured or unsecured) are not allowed for reserves.

**Select QM, Select Non-QM, Select 90 QM, Choice QM and Choice Non-QM**

- Revised the 2106 expense (unreimbursed business expense) requirement due to tax law changes now in effect that prohibit many professions from filing 2106 expenses on their tax returns. For borrowers with 2106 expenses on 2017 tax returns and no expenses indicated on 2018 tax returns (due to the tax law change), a 12- month average of expenses must be based on the 2017 tax return and deducted from qualifying income.

**Select QM, Select Non-QM, Select 90 QM, Choice QM and Choice Non-QM**

- Clarification added for Partnership (1065) and S-Corporation (1120S) returns – business returns for these entities are typically due March 15<sup>th</sup> with an extension allowed until September 15<sup>th</sup>. After the extension date, the loan is not eligible without the filed tax return. This is based on changes made by the IRS in 2016.