



DELEGATED CORRESPONDENT ANNOUNCEMENT 2019-43

October 9, 2019

Guideline Update

FHA

1.03.22 Manufactured Housing

No subordinate financing allowed

VA

****PLEASE review VA guidelines and circulars in their entirety. Most of these items do not affect the Quick Product Guides so no changes have been made to them. ****

1.05.04.01 Active Military Verification Analysis

VA has provided some clarification on their guidance pertaining to active military income. FCM has updated their guidelines to match. Previously just stated if the date of release of the service member is within 12 months that verification of a valid offer of local civilian employment following release from active duty is required. They have added and/or military retirement income.

*******FCM is still reviewing the VA New Construction requirements pertaining to the loan being closed as a purchase and how the compliance documents should be completed. An update will be provided once research is complete. Please reach out to your Client Coordinators with any loan level questions.*******

1.08.06.01 Transaction Types in a Construction/Permanent Home Loan

Added the following from Circular VA 26-18-17 for clarification on how to structure Construction to Permanent loans with VA.

- Transactions in which a Veteran has signed a contract to build will be considered a purchase, regardless of the category shown on the closing disclosure. The case must be ordered as new construction and purchase" in WebLGY, through Veterans Information Portal (VIP).
- Transactions in which a Veteran acted as their own contractor, and/or hired subcontractors may be considered a purchase. All labor and material costs must be documented by receipts, work orders, and/or contractual agreements to establish the acquisition price. The case must be ordered as a new construction and purchase in WebLGY

10/09/2019



- Transactions in which construction was completed and at least 1 year has passed as evidenced by a Certificate of Occupancy (CO), or other evidence by the taxing authority will be treated as refinance. A new VA appraisal after the date of the CO is required, and should be ordered as a VA cash-out refinance in WebLGY. Construction exhibits such as plans, specifications, and contracts are not required.

Loan Characteristics

Acquisition Costs. May be included in the VA loan if evidence is provided of items listed below:

- The contract to build,
- Cost of the lot if acquired within one year from VA loan closing, or
- Value of the lot if acquired more than one year from VA closing, or
- Value of the lot if gifted to the Veteran and there are no liens on the lot, or
- Lots gifted less than one year from VA closing are limited to lot lien(s) if any,
- Interest reserve if not included in the contract to build,
- Contingency reserve, and
- Permits if not included in the contract to build.

Cash Back to Borrower. In instances where down payment funds came directly from the borrower, or the borrower purchased a lot in cash, or has unencumbered ownership of the lot being used as a down payment, the borrower may receive cash back at closing for the amount paid provided that the final loan amount does not exceed the NOV value, and evidence of the funds provided by the borrower are documented in the loan file. The borrower cannot receive cash from equity in the project, or funds provided by another party.

Maximum Loan Amount. The maximum loan amount for construction loans is limited to:

- the lesser of the VA reasonable value, or the acquisition costs, plus
- the cost of any energy efficiency improvements up to \$6,000, plus
- VA funding fee.

VA has updated Chapter 13 of the Handbook. Underwriters, please review this Chapter in its entirety as it pertains to issuing NOV's. Electronic signatures are not allowed on NOV's.

Per circular 26-19-25, VA is transitioning from the Veterans Information Portal (VIP) to the LGY Hub. VIP access will be removed at the end of December 2019. You will need to gain access to LGY Hub prior to that date.



CONV

*****These updates do not affect the Quick Product Guides. FCM is just including them in the Bulletin for your knowledge. Please review FNMA and Freddie guidelines for updates.**

FNMA has announced effective October 23, 2019, they will be waiving the \$75 course fee for Framework Homebuyer Education.

1.09.02 Title Commitment

For LP loans:

- Real estate taxes must be based on the value of the land improvements plus the value of the land in calculating the monthly housing. 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 property is located in a jurisdiction where transfer of ownership causes or results in a recalculation of the amount of real estate tax the monthly housing expense must include an estimate of the recalculated real estate tax amount.
- When there is a tax abatement on the property, the reduced real estate tax amount may be used in the monthly housing expense calculation, provided that the mortgage file contains evidence of the tax abatement and the documentation shows that the tax abatement will remain in place for at least five years after the note date.

RD

RD has updated Chapters 5, 6, 7 and 12 of the Handbook. It is recommended that you review these chapters in their entirety. Most of the items listed below did not cause any changes to the Quick Product Guide. In addition to the changes below, RD removed the interest rate cap, form 1004MC is no longer required, 3555-21 no longer references interest rate, lock or floating dates.

1.07.02 Established Data Tolerances

A tolerance threshold has been established when an increase in monthly payments do not exceed a cumulative total of \$50. Examples of these debts include, but are not limited to installment loans, revolving credit lines, real estate taxes, final homeowner's insurance premiums, etc.

There are no data tolerances for income.



1.07.06 Student Loans

This section has been updated to change from 1% to .50% calculation requirement for Student Loans.

Non-Fixed payment loans:

Payments for deferred loans, Income Based Repayment (IBR), Graduated, Adjustable, and other types of repayment agreements which are not fixed cannot be used in the total debt ratio calculation. The higher of one half percent (.50%) of the loan balance or the actual payment reflected on the credit report must be used as the monthly payment in the underwriter decision. No additional documentation is required.

1.10.07.03 Documentation Requirements for New Construction

Provided some clarification around who can certify plans and specs.

FCM may accept certifications from individuals or organizations trained and experienced in the compliance, interpretation or enforcement of the applicable development standards* for drawings and specifications. Plan certifiers may be any of the following:

- (1) Licensed architects;
- (2) Professional engineers;
- (3) Plan reviewers certified by a national model code organization;
- (4) Local building officials authorized to review and approve building plans and specifications; or
- (5) National codes organizations.

Also provided clarification around Thermal Standard requirements:

New construction dwellings must meet or exceed the International Energy Conservation Code (IECC) in effect at the time of construction. Evidence of thermal standards are typically included in the plans and specs to which the dwelling was built. The final inspection or Certificate of Occupancy issued by local jurisdiction meets this requirement. Otherwise, documentation of conformance may be by one of the following options:

- The builder may certify confirmation with the IECC standards.
- A qualified, registered architect or a qualified, registered engineer may certify confirmation with IECC standards.

1.11.01 Non-Streamlined Refinance/Rate and Term Requirements

RD has removed the 2% discount point cap.



Discount points are eligible to be financed to permanently buy down the interest rate. In such cases, discount points financed, must represent a reduction to the interest rate.

RD has also updated their flood insurance requirements. FCMs Insurance Policy Document has been updated to reflect the following:

Flood insurance must cover the lesser of the outstanding principal balance of the loan or the maximum amount of coverage allowed under FEMA's NFIP.

Unless a higher amount is allowed by state or federal law (which includes FEMA policies), the maximum deductible clause for a flood insurance policy should not exceed the greater of:

- \$1000, or
- 1 % of the face amount policy coverage, or
- The minimum deductible offered by the borrower's chosen insurance carrier.