



DELEGATED CORRESPONDENT ANNOUNCEMENT 2019-46  
November 1, 2019

# Guideline Updates

## Conv

The following are some updates to Conventional Guidelines. Not all of these changes caused updates to the Quick Product Guide. It is recommended that all FNMA and Freddie Mac guidelines be reviewed in their entirety for updates.

### Variable Pay/Fluctuation Hourly Pay:

FNMA has clarified the borrower must have a minimum of 12 months employment history, no exceptions, and must have been with the same employer for a minimum of 6 months when using this type of pay to qualify.

### Calculating Monthly Qualifying Rental Income (or Loss):

This entire section has been updated to reflect FNMA’s new requirements for using rental income to qualify.

If the borrower...	Then for qualifying purposes...
<ul style="list-style-type: none"> <li>Currently owns a principal residence (or has a current housing expense), and</li> <li>Has at least a one-year history of receiving rental income or documented property management experience</li> </ul>	<ul style="list-style-type: none"> <li>There is no restriction on the amount of rental income that can be used.</li> </ul>
<ul style="list-style-type: none"> <li>Currently owns a principal residence (or has a current housing expense), and</li> <li>Has less than one-year history of receiving rental income or documented property management experience</li> </ul>	<ul style="list-style-type: none"> <li>For a principal residence, rental income in an amount no exceeding the PITIA of the subject property can be added to the borrower’s gross income, or</li> <li>For an investment property, rental income can only be used to offset the PITIA of the subject property.</li> </ul>
<ul style="list-style-type: none"> <li>Does not own a principal residence, and</li> <li>Does not have a current housing expense</li> </ul>	<ul style="list-style-type: none"> <li>Rental income from the subject property cannot be used.</li> </ul>



**Employment Offers or Contract:**

Option 2 has been updated to reflect the following:

<b>Option 2 -- Loan Closed Prior To Borrower Starting Employment</b>							
<p>This option is limited to loans that meet the following criteria:</p> <ul style="list-style-type: none"> <li>• purchase transaction,</li> <li>• principal residence,</li> <li>• one-unit property,</li> <li>• the borrower is not employed by a family member or by an interested party to the transaction, and</li> <li>• the borrower is qualified using only fixed based income.</li> </ul>							
<p>The lender must obtain and review the borrower’s offer or contract for future employment. The employment offer, or contract must</p> <ul style="list-style-type: none"> <li>• clearly identify the employer and the borrower, be signed by the employer, and be accepted and signed by the borrower;</li> <li>• clearly identify the terms of employment, including position, type and rate of pay, and start date; and</li> <li>• be non-contingent. Note: If conditions of employment exist, the lender must confirm prior to closing that all conditions of employment are satisfied either by verbal verification or written documentation. This confirmation must be noted in the mortgage loan file.</li> </ul> <p>Also note that for a union member who works in an occupation that results in a series of short-term job assignments (such as a skilled construction worker, longshoreman, or stagehand), the union may provide the executed employment offer or contract for future employment.</p>							
<p>The borrowers start date must be no earlier than 30 days prior to the note date or no later than 90 days after the note date. Prior to delivery, the lender must obtain the following documentation depending on the borrower’s employment start date:</p> <table border="1"> <thead> <tr> <th style="text-align: left;">If the borrower’s start date is...</th> <th style="text-align: left;">Documentation Required</th> </tr> </thead> <tbody> <tr> <td>The note date or no more than 30 days prior to the note date</td> <td> <ul style="list-style-type: none"> <li>• Employment offer or contract; and</li> <li>• Verbal verification of employment that confirms active employment status</li> </ul> </td> </tr> <tr> <td>No more than 90 days after the note date</td> <td>Employment offer or contract</td> </tr> </tbody> </table>		If the borrower’s start date is...	Documentation Required	The note date or no more than 30 days prior to the note date	<ul style="list-style-type: none"> <li>• Employment offer or contract; and</li> <li>• Verbal verification of employment that confirms active employment status</li> </ul>	No more than 90 days after the note date	Employment offer or contract
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<p>The lender must document, in addition to the amount of reserves required by DU or for the transaction, one of the following:</p> <ul style="list-style-type: none"> <li>• Financial reserves sufficient to cover principal, interest, taxes, insurance, and association dues (PITIA) for the subject property for six months; or</li> <li>• Financial resources sufficient to cover the monthly liabilities included in the debt-to-income ratio, including the PITIA for the subject property for the number of months between the note</li> </ul>							



date and the employment start date plus one. For calculation purposes, consider any portion of a month as a full month.

Financial resources may include:

- Financial reserves and
- Current income

Current income refers to net income that is currently being received by the borrower (or co borrower), may or may not be used for qualifying, and may or may not continue after the borrower starts employment under the offer or contract. For this purpose, the lender may use the amount of income the borrower is expected to receive between the note date and the employment start date. If the current income is not being used for qualifying purposes, it can be documented by the lender using income documentation, such as a paystub, but a verification of employment is not required.

The loan must be delivered with Special Feature Code 707.

#### **Alimony, Child Support or Separate Maintenance:**

FNMA has clarified for loan casefiles underwritten through DU, when using the option of reducing the borrower's monthly qualifying income by the monthly alimony payment, under *Income Type*, the underwriter must enter the amount of the alimony obligation as a negative amount. If the borrower also receives alimony income, this amount should be combined with the amount of the alimony payment and entered as a net amount.

**\*\*\*All updates to Homebuyer Education are effective for all new casefiles submitted on or after Dec 7, 2019\*\*\***

#### **97% Standard Fannie (DU) and Home One (LP):**

FNMA has updated their Homebuyer Education requirements. Required on purchase transactions with LTC, CLTV or HCLTV ratios greater than 95% when all borrowers are first time homebuyers

#### **Homebuyer Education under HomeReady:**

Homeownership education is required prior to note date for at least one borrower on purchase transactions when all occupying borrowers are first-time homebuyers, regardless of LTV ratio.



## *FHA*

### **Condos:**

HUD has updated the loan level review requirements for condos that are on FHA Approved Condo Project list. HUD now requires a high level review of an HOA questionnaire to ensure it still meets HUD requirements. It is recommended that lenders review the new HUD requirements in their entirety in the HUD Handbook.

HUD now allows for Single Unit Approval for Condo Units. FCM is accepting Single Unit Approvals. In addition, HUD has provided a work around for ordering case numbers when using a Single Unit Approval until FHA Connection is updated. FCM has posted this work around on the Knowledge Center.

## *RD*

**USDA has made updates to Chapter 9 of the Handbook. It is recommended you review the Procedure Notice dated October 4, 2019 for all of the updates. [Procedure Notice](#)**

## *VA*

**VA has updated Chapter 9 and Chapter 12 of the Handbook. It is recommended the chapter is reviewed in its entirety. These changes are effective immediately. Below are some of the changes:**

### **Sales Contracts:**

The Escape Clause must be contained in the sales contract for all VA-guaranteed loans. The underwriter is responsible for ensuring that the paragraph is in the sales contract prior to closing.

The builders/realtors that initiate contracts on new construction must ensure that the Escape Clause is in the contract and the contract is signed by the Veteran and seller.

Upgrades are not considered earnest money and the builder is not required to refund this money. When the NOV is below the sales contract price, this clause protects the Veteran with negotiation of the sales contract.

If the sales contract was signed by the Veteran prior to receipt of the NOV, the contract must include, or be amended to include, the clause below:

“It is expressly agreed that, notwithstanding any other provisions of this contract, the purchaser shall not incur any penalty by forfeiture of earnest money or otherwise or be obligated to complete the purchase of the property described herein, if the contract purchase price or cost exceeds the reasonable



value of the property established by the Department of Veterans Affairs. The purchaser shall, however, have the privilege and option of proceeding with the consummation of this contract without regard to the amount of the reasonable value established by the Department of Veterans Affairs ([38 U.S.C. 501, 3703\(c\)\(1\)](#)).”

**VA IRRRLs**

For IRRRLs, a COE is now required, except in the following three situations:

- The Veteran has already been determined to be exempt from the funding fee as evidenced on IRRRL assignment screen in WebLGY.
- The entitlement encumbered on the loan being refinanced belongs to the surviving spouse of a Veteran.
- The entitlement encumbered on the loan being refinanced belongs to a Veteran who has since passed away and the IRRRL borrower is spouse who was also a co-borrower on the loan being refinanced.

Please note: The spouse of a Veteran who is now deceased, will not be considered exempt from the VA Funding Fee unless (s)he is in receipt of DIC. Lenders may remit VA Form 26-8937, Verification of Benefits, to the RLC of Jurisdiction to verify a surviving spouse’s exempt status

**VA Circular 26-19-23 Blue Water Navy Vietnam Veterans Act of 2019:**

**\*\*\*FCM is reviewing the loan limit adjustments-maximum guaranty calculation and will provide further guidance in the future.\*\*\***

**1.04.02 Certificate of Eligibility:**

Entitlement may be restored for a cash-out refinance of active VA-guaranteed loans when ordering or correcting the Certificate of Eligibility (COE). Use this link for instructions:

[https://www.benefits.va.gov/homeloans/documents/docs/lender\\_coe\\_tutorial.pdf](https://www.benefits.va.gov/homeloans/documents/docs/lender_coe_tutorial.pdf)

**1.03.06 VA Funding Fee:**

**The table below is effective for loans closed on or after January 1, 2020 and before January, 1 2022:**

Type of Loan	Down Payment	Percentage (%) for First Time Use	Percentage (%) for Subsequent Use
Purchase and Construction	None	2.30	3.60
	5% but less than 10%	1.65	1.65
	10% or more	1.40	1.40
Cash-Out Refinance	N/A	2.30	3.60



IRRRLs	N/A	0.50	0.50
Loan Assumptions	N/A	0.50	0.50

**Waiver of Fees for Purple Heart Recipients:** Funding Fees are waived for Members of the Armed Forces who are serving on active duty and provide, on or before the date of loan closing, certificate or military orders if having been awarded the Purple Heart. VA will issue further guidance on what additional evidence may establish eligibility for the waiver and the process for obtaining a COE with funding fee exempt status later this year.