

Newrez Announcements



Announcement 2024-012 Underwriting Guideline Updates – Conforming Loans

February 28, 2024

Newrez LLC "Newrez" Approved Correspondent Clients; this announcement contains the following information:

- Most recent agency announcements, effective immediately for all loans in the pipeline, unless otherwise noted.
- Clarifications and/or corrections to the Newrez Guides effective February, 28, 2024
- This memo also includes a summary of:
 - Previously announced guidelines have now been incorporated into the Newrez Underwriting Guide.
 - Updates to the Product Summaries and/or Overlay Matrix.

Please use this announcement as guidance until all applicable underwriting guides are published.

Agency Announcements

Freddie Mac Bulletin [2024-1](#) and Fannie Mae [SEL 2024-01](#) were *both* released on February 7, 2024 and Newrez is aligning with the following topics below.

Age of Tax Return requirements

The following have been updated:

- Allowable age of tax return requirements has been updated with application and note date to support 2022 and 2023 federal income tax return(s) or tax transcript requirements.
- Requirements expanded to permit alternative documentation, in lieu of IRS confirmation that tax transcript(s) are not yet available for the business tax return(s):
 - Confirmation business tax returns were filed for prior year (e.g. 2022 business tax return in file was signed later in the year (e.g. October 2022) or documentation from third-party tax return preparer confirming the 2023 business return has not been filed; and
 - Documented evidence of continued income stability using at least one of the examples listed below:
 - Business review and analysis of current business activity through a review of the most recent financial statement(s) that cover the period since the last tax return filing(s), or
 - Business review and analysis of current business activity through a review of at least the most recent three months of business bank statements, or
 - Signed IRS Form 941, Employer's Quarterly Federal Tax Return, for the prior calendar year and current calendar year quarter(s) that supports wages and other compensation documented on the most recent business tax return, or
 - Review of tax liability reported with IRS tax filing extension(s) (e.g., IRS Form 4868, IRS Form 7004) to determine consistency with tax liability reported on prior year(s) tax return(s), or
 - Review of W-2s, 1099s and/or K-1s from the most recent calendar year, if available
- Specified for all mortgages with note date on or after November 1, 2024 the most recent tax return(s) must be no older than 2023, regardless of other factors including:
 - Tax filing extension status, or
 - IRS tax filing deadline relief status.

Complete guidelines can be found in the Newrez Underwriting Guide, Chapter 1I Employment and Income, 1I.1(h) Allowable Age of Individual Income Tax Returns

Trust Income

Guidelines for trust income have been updated as follows:

- History of receipt for trust income with pre-determined fixed payment: Must document receipt of income for the most recent one-year (previously, history of receipt was not required).
- Documentation of continuance for all trust income types: Previously, evidence of sufficient assets to support the qualifying income (e.g., bank statements, letter from trustee) was required. Added additional requirement that when the borrower is the trustee, a letter from a trustee is not acceptable documentation.

Updates for Trust Income will be effective with Note dates of March 31, 2024 and after. The Newrez Underwriting Guide will be updated for March 28, 2024 release.

Asset Documentation

Direct Account verifications that are electronically generated by a financial institution are not required to contain the following from the financial representative:

- Their title, and
- Their signature, and
- Their phone number

Complete guidelines can be found in the Newrez Underwriting Guide, Chapter 1G Assets. 1G.3(a) Financial Institution Accounts

ACE Eligibility (Automated Collateral Evaluation)

LPA will be offering ACE waivers for LPA submission or resubmissions on or after February 19, 2024 for cash-out refinance mortgages with the following parameters:

- Primary residence: 70% LTV/TLTV maximum
- Second Home: 60% LTV/TLTV maximum

Complete guidelines can be found in the Newrez Underwriting Guide, Chapter 1J Appraisal Requirements, 1J.4 (g) Value Acceptance (Appraisal Waiver) and ACE (Automated Collateral Evaluation)

Automated Income Assessment (AIM)

The AIM assessment with LPA using employed data has been enhanced and when submitted to LPA, data sourced directly from borrower's paystub(s) and W-2 form(s) will now be included in the assessment. LPA has been updated with feedback messages to support this enhancement.

Complete guidelines can be found in the Newrez Underwriting Guide, Chapter 1E Underwriting, 1E.4(b) Validation Components and Documentation requirements.

Requirements for Providing Estimated Values in Loan Product Advisor

For refinance mortgages, Freddie Mac is requiring lenders to have written procedures in place that prohibit changes to the estimated property value in LPA for the purpose of obtaining ACE, ACE+PDR or more favorable mortgage terms.

Updates for this requirement will be effective May 31, 2024. The Newrez Underwriting Guide will be updated at that time.

Appraisal Photographs

Photo requirements for appraisal reports with interior and exterior inspections must not include additional interior photos of the subject property. This update will require more detailed photographs of all living areas, including all gathering rooms and finished and unfinished basement areas.

Updates for this requirement will be effective for appraisals with effective dates on or after June 6, 2024. The Newrez Underwriting Guide will be updated May 31, 2024.

Homeownership Education

Clarification provided for any transaction requiring homeownership education, the certificate of completion document (Homeownership Education certification or another document) must be retained in the mortgage file.

Complete guidelines can be found in the Newrez Underwriting Guide, Chapter 1A Eligibility, 1A.10(g) Homeownership Education and Housing Counseling Options

Adequacy and Availability of Insurance

Effective for applications dated June 1, 2024 and after, the following will be required:

- Master condominium and cooperative projects policy limits must be at least equal to 100% of the replacement cost value of the project improvements, including common elements and residential structures, as of the current insurance policy effective date.
 - Flood Insurance requirements were updated for condominium project to reflect the maximum coverage amount available from the National Flood Insurance program per unit. This is consistent with Planned Unit Development (PUD) and Cooperative Project requirements.
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Fannie Mae Announcement [SEL 2024-01](#)

Fannie Mae announced updates to the following:

Value Acceptance + Property Data

A new dataset to support condominiums will be released on April 1, 2024; however, DU will be issuing value acceptance + property data messages on condo casefiles effective immediately.

Additional updates for value acceptance + property date made to Selling Guide are:

- Added the Individual Condo Unit Appraisal report (Hybrid Form 1073) for use when the value acceptance + property date offer is lost due to changes in qualifying loan characteristics.
- Removed:
 - Reference to C6 condition and Q6 quality condition since UPD (Uniform Property Dataset) does not require the collection of condition and quality ratings.
 - Property Data Collection to be obtained after the initial DU offer to allow property data collection use in multiple transactions.

Complete guidelines can be found in the Newrez Underwriting Guide, Chapter 1J, Appraisal requirements, 1J.4(h) Value Acceptance + Property Data

Non-traditional Credit

The list of nontraditional credit references have been expanded for additional examples of acceptable housing payments:

- Rent: fees paid to a landlord or property management company;
- Privately Held Mortgages: Housing payments for borrower's residence not reported to the credit bureaus, such as contract for deed payments and/or other similar arrangements; and.
- Real Estate Taxes: Payments made on a principal residence, regardless of payment frequency for homes owned free and clear.

Complete guidelines can be found in the Newrez Underwriting Guide, Chapter 1F, Credit, 1F.5

(c) Eligible Types of Nontraditional Credit references

Self Employed Business Income

Income calculation and documentation requirements has been clarified for borrowers using business income to qualify for self-employed borrowers and borrowers with less than 25% interest in a business.

- Alternative methods other than the Quick Ratio or Current Ratio identified in Fannie Mae Guide used to confirm business liquidity. When an alternative method is used, file must contain a documented rationale.
- Use of a Schedule K-1 alone may not be used to support the business liquidity if distributions have not been taken, as it does not provide sufficient information for business liquidity.

In addition to the above, the following additional policies are only for borrowers with less than a 25% interest in a business.

- If a business tax return is provided, it is not required to analyze the viability of the business. Review of the income on the Schedule K-1, showing the borrower's prorated share of the business income should be the sole focus.
- Income reported on a K-1 can only be considered for qualifying, when verification is received that the income was actually distributed to the borrower is consistent with the level of business income being used to qualify or the business has adequate liquidity to support the withdrawal of earnings.

Complete guidelines can be found in the Newrez Underwriting Guide, Chapter 1I, Employment and Income, 1I.13(p) Income reported on a K-1

Glossary

- Added definition for following origination methods and processes based on agency guidelines:
 - Broker
 - Retail
 - Third Party Origination
- Updated Correspondent definition to include: The loan may be originated by a party other than a mortgage loan seller (or its parent company, controlled affiliate, or subsidiary) and is then sold to a mortgage loan seller.

Complete guidelines can be found in the Newrez Underwriting Guide, Glossary

Manufactured Housing – Cash Out Refinance Transaction

Multi-wide manufactured home maximum loan term has increased from a 20-year term to a 30-year term for cash out refinance transactions.

Single wide manufactured homes remain ineligible for cash out refinance transaction.

Qualifying Rate for 7- and 10-year ARMS

Clarified the borrowers must be qualified using not less than the note rate for either the 7- or 10-year ARMs that are not high priced mortgage loans or higher priced covered transactions.

Note: Higher Priced Mortgage Loans (HPML) are not permitted due to the requirement to be manually underwritten (existing Newrez overlay).

If an ARM has an initial fixed rate for more than five years, and the borrower is qualifying using an interest rate higher than the note rate, the higher rate must be entered in the ARM

Qualifying Rate field in DU and the ARM plan must be used.

Newrez Underwriting Guide Updates

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Conventional Updates

Chapter 1D Property Types

- Created a new section titled Lava Flood Hazard Zones which identifies properties in Lava Zones 1 and 2 are not permitted. This same information is also located in section Titled Ineligible Properties.
- Removed reference to possible exception for properties in Hawaii in Lava Zones 1 or 2.

Complete guidelines can be found in the Conventional Underwriting Guide, Chapter 1D, Property Types, in the following sections:

- 1D.2 Lava Flood Hazard Zones
- 1D.7 Ineligible Property Types

Chapter 1G Assets

Removed overlay for LPA transactions, the date of asset documentation must be dated within 45 days of the application date.

- Restated requirement as: Account statements must be dated within 45 days of application for DU and be the most recent for LPA.

Complete guidelines can be found in the Conventional Underwriting Guide, Chapter 1G Assets, 1G.3 (a) Financial Institution Accounts

Chapter 1I Employment and Income

- Based on 2023 tax year, updated Allowable Age of Individual Income Tax Returns and documentation requirements.
- Expanded Future Income guidelines for Fannie Mae Option 1 and Freddie Mac Option 2 financing.

Complete guidelines can be found in the Conventional Underwriting Guide, Chapter 1I, Employment and Income, in following sections:

- 1I.1(h) Allowable Age of Individual Returns
- 1I.13(k)(iv) Fannie Mae DU Option One and Two
- 1I.13 (k) (v) Freddie Mac LPA

Prior Agency Announcements

Below is a summary of previously announced updates that have been incorporated into the Newrez Underwriting Guide.

Newrez Guide	Topic	Newrez Announcement	Agency Announcement
			n/a

Product Profile Releases and Overlay Matrix Updates

- **Product Profiles Releases**
 - Conforming Product Summary Updates:
 - Co-op Eligibility Fixed LTV increased from 95% to 97%
 - Manufactured home updates
 - Fannie Mae/DU transactions- increased cash out loan terms to 30 years for multi-wide manufactured homes
 - Clarified for Freddie Mac:
 - Maximum 20-year term for multi-wide manufactured homes
 - Single Wide not permitted for:
 - cash out refinance or
 - Second home occupancy
 - Texas 50(A)(6) Product Summary Update:
 - Fannie Mae/DU transactions- increased cash out loan terms to 30 years
- **Overlay Matrix Update**

- For LPA transactions, removed overlay for age of bank statements to be no more than 45 days as of the date of application.
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Questions

If you have any questions regarding any information in this announcement, please feel free to contact your regional sales manager or client manager.

[Newrezcorrespondent.com](https://www.newrez.com/correspondent)

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Client Development

We offer a comprehensive training curriculum on Newrez products and processes, to keep your staff informed of the latest developments in products, technology solutions, compliance issues and process improvements. Each of these programs is offered by our training and development staff on a monthly basis and is updated regularly to reflect recent changes in the industry. Visit our [training site](#).