

# Newrez Announcements



## **Announcement 2023-016 Conventional, FHA, and VA Underwriting Guideline Updates**

**February 14, 2023**

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Newrez LLC "Newrez" Approved Correspondent Clients; effective immediately, unless otherwise noted, for all loans in pipeline, the topics contained in this announcement have been updated in the Conventional, FHA, and VA Underwriting Guides.

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### **Cash-out Refinance Seasoning Requirement**

Fannie Mae [SEL-2023-01](#) announced a 12-month seasoning requirement for all cash out refinance transactions. Loans not meeting the guidelines below must have a Note date on or before April 1, 2023.

For all cash-out refinance transactions paying off a first lien mortgage, the first lien mortgage being refinanced must be seasoned for at least 12 months (measured from the Note date of the mortgage being refinanced to the Note date of the cash-out refinance mortgage).

The seasoning requirement does not apply for the following cash-out refinance transactions:

- Any existing subordinate liens being paid off through the transaction; or
- When buying out a co-owner in accordance with Fannie Mae guidelines.

This change is in addition to the existing requirement that at least one (1) borrower be on title to the subject property for at least six (6) months prior to the disbursement date of the new loan, unless one of the ownership exceptions are met. Refer to the Conventional Conforming Underwriting Guide for complete details.

Complete guidelines can be found in the Conforming Underwriting Guide, Chapter 1B Transactions, 1B.3 Cash-out Refinance Mortgages.

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## Eligible Gift and Grant Donors

The requirements for acceptable grant donors have been updated and are more closely aligned with those for Community Seconds.

Complete guidelines can be found in the Conforming Underwriting Guide, Chapter 1G Assets, Section 1G.3(b) Gift Funds.

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## Lender-Funded Grants

Newrez will purchase loans with a Correspondent Client lender-funded grant (as announced in Fannie Mae [SEL-2022-10](#)) to provide all or part of the down payment, closing costs, reserves, and certain energy-related improvements, subject to the following:

- Must be a HomeReady loan used for a purchase transaction.
- The subject property must be a primary residence.
- The Correspondent Client providing the grant must have a documented program that provides grants to low-to-moderate income borrowers for community development, supports equitable housing initiatives or similar special initiatives.
- The terms and conditions of the grant must be specified in writing and kept as part of the loan file.
- The borrower must make a minimum 3% contribution from their own funds or other eligible sources.
- The grant cannot be funded in any way through the loan, such as through premium pricing
- When used for closing costs assistance only, the Premium Pricing/Lender Credit Policy (Chapter 1C, Section 1C.6) may be applied instead of the lender-funded grants policy.

The HomeReady product summary has been updated with this information.

In addition to the changes described above, the requirements for acceptable grant donors are now more closely aligned with those for Community Seconds.

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## Borrowers with Nontraditional Credit

Fannie Mae [SEL-2023-01](#) provided enhancements for Borrowers with Nontraditional Credit. At this time, Newrez does not allow borrowers without a credit score and non-traditional credit.

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## FHA Updates

The following updates align with *FHA INFO* [2023-04](#), *FHA Published Update to Single Family Housing Policy Handbook 4000.1*.

### Chapter 2B Transaction Types

#### Conflict of Interest

FHA Mortgagee Letter [2022-22](#) announced that loan officers acting in a dual capacity are not permitted except for a loan officer who is acting as the realtor in the transaction if there are no other business affiliations. This new FHA policy allowing the loan officer to act as the realtor in the transaction is not being adopted by Newrez.

Complete guidelines can be found in the FHA Underwriting Guide, Chapter 2B Transaction Types, Section 2B.1(c) Conflict of Interest.

### Chapter 2C FHA Financing

Clarified guidance for nonprofits assisting Governmental Entities in the operation of their secondary financing programs to the following:

- HUD approval and placement on the Nonprofit Organization Roster is not required when there is a documented agreement in place. The agreement requirements were updated to:
  - Specify the functions performed are within the Governmental Entity's secondary financing program; and
  - Names the Governmental Entity as the Mortgagee in the secondary financing legal documents.

Complete guidelines can be found in the FHA Underwriting Guide, Chapter 2C Financing, Section 2C.5(a) Secondary Financing Provided by Governmental Entities and HOPE Grantees.

## Chapter 2F Employment and Income

### Employment Gaps

The requirement for a borrower who has recently returned to the work force after an extended period of time has been clarified to allow the use of the income when the borrower has been employed in their current line of work (versus job) for six (6) months or more at the time of case number assignment and a documented two-year work history prior to the absence from the work force.

### Self Employed Income

Clarified that the income for self-employed borrowers must be calculated using the lesser of one (1) of the following:

1. The average gross self-employment income earned over either:
  - the previous two (2) years; or
  - the length of time Self-Employment Income has been earned if less than two years (where permitted); or
2. The average gross self-employment income earned over the previous one (1) year.

Complete guidelines can be found in the FHA Underwriting Guide, Chapter 2I Employment and Income

- Section 2I.2(c) History of Receipt - Employment Gaps
- Section 2I.4(f) Analysis and Calculation of Self-Employed Income.

## Chapter 2G Assets

Clarified that the minimum 3.5% down payment requirement cannot be met by borrower paid closing costs, prepaid expense, commitment fees, discount points, or premium pricing.

Complete guidelines can be found in the FHA Underwriting Guide, Chapter 2G Assets, Section 2G.1 Minimum Down Payment and Cash to Close.

## Chapter 2J Appraisal Requirements

- Clarified that each living unit must have adequate kitchen facilities for food preparation, which includes a sink and safe drinking water and a stove utility hookup at a minimum for cooking.
- Clarified that when water well testing is required, the report must be completed within 180 days of the disbursement date.
- Removed the requirement for a well test when there is less than 100 feet distance between the well and septic system.
- Removed the requirement for the Market Conditions Addendum to the appraisal report.
- Updated attic inspection requirements:
  - If the observation reveals evidence of a deficient condition (such as a water-stained ceiling, insufficient ventilation, or smell of mold), the appraiser must report this condition subject to inspection or subject to repairs.
  - The appraiser must report when the attic space is not safely accessible. The appraiser must complete the appraisal subject to inspection by a qualified third party only if further observation of inaccessible attic area(s) is necessary to determine compliance with MPR and MPS.
- Added the definition for increasing and decreasing markets
- Added that the appraiser must complete an analysis of market trends for the past 12 to 24 months.

Complete guidelines can be found in the FHA Underwriting Guide, Chapter 2J Appraisal Requirements.

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## VA Updates

### Chapter 3H Liabilities and Debt Ratios

#### Conversion of a Primary Residence

When a Veteran is purchasing a new primary residence and is maintaining their current primary residence as an investment property, all of the following is required:

- Rental income may only be used to offset the mortgage payment.
- Rental income may not be used for qualification.
- The current and proposed monthly housing expenses must be included in the DTI ratio

An explanation may be required when the property being purchased is of lesser value or in the same geographic location.

Complete guidelines can be found in the VA Underwriting Guide, Chapter 3H Liabilities and Debt Ratios, Section 3H.4(a)(i) Conversion of a Primary Residence.

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#### Underwriting Guideline Updates and Clarifications

Topic and Chapter	Guideline
Chapter 1A Eligibility 1A.13 Ineligible Programs	Added Freddie Mac HomeSteps to list of ineligible programs
Chapter 1D Property Types 1D.1(e) Cooperative	Added definition of cooperative communities including: <ul style="list-style-type: none"><li>• Cooperative Project</li><li>• Cooperative Share Loan</li><li>• Cooperative Corporation</li></ul>
Chapter 1D Property Types 1D.4(k) Ineligible Resale Restrictions and Loan Characteristics	Removed temporary buydowns as ineligible for loans with resale restrictions.

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#### Questions

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

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