



Announcement 2023-017 USDA Underwriting Guideline Updates

February 14, 2023

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 USDA Underwriting Guide.

Chapter 4E Underwriting

Clarified that when underwriting loans in GUS, enter borrowers as self-employed when the borrower has a greater than or equal to 25% business ownership.

Chapter 4G Assets

Review of Account Statements

Individual non-recurring deposits greater than \$1,000 shown on the bank statements must be sourced when not from wages or earnings.

Reserves

- Reserves must be calculated using the lesser of the current month's account balance or the previous month's account balance.
 - Funds borrowed against retirement accounts may not be used for reserves; however, they may be used for down payment and closing costs.
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Chapter 4H Liabilities and Debt Ratios

Automobile Payment

- The full monthly payment for a car loan or lease payment must be included in DTI ratio. When an auto allowance is received, this payment is considered income.
 - A net auto expense is not permitted.
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Chapter 4I Employment and Income

Income Documentation

Added clarification the following documents may be used in lieu of the W-2 form provided the complete income earned is reflected:

- Year-end paystub(s) or military Leave and Earnings Statement to document year- end earnings; or
- IRS Wage and Income transcript(s)

Tax Transcript Policy

When transcripts cannot be obtained from the IRS for a borrower or required household member, document the correspondence to and from the IRS in the loan file to support the omission. The loan file will be considered complete when the explanation is documented. Loan closings will not be delayed due to obstacles in obtaining the tax transcripts when the tax returns were filed timely. However, a “failure to file” tax returns by a borrower, when legally required to do so and by the due date established by the IRS, is not an eligible explanation to forego obtaining tax transcripts.

Business Tax Transcripts (1065, 1120, 1120S) are required on all loans if the borrower(s) owns more than 25% of the business.

Verbal Confirmation of Employment

Update the policy to require a verbal confirmation of employment within ten (10) business (previously calendar) days for wage earner.

Self Employed Borrower: Must be completed within 30 calendar dates from Note date (or funding date for escrow states)

Verification of Annual Income

- Clarified that all income sources must be verified for each adult household member for the previous two (2) years.
- The following table outlines the updates for Annual Income.

Annual Income Type	New Guideline
Automobile Allowance/Mileage	Include the full amount documented on the paystub(s) as taxable gross earnings that will be received for at least 12 months.
Boarder Income	Removed boarder income as a source of Annual Income. Boarder income is not permitted.
Business Loss	Do not include if self-employed business has closed.
Mortgage Credit Certificate	Do not include. Removed requirement for IRS W-4 form.
Secondary employment	Include amounts that will be received in the next 12 months.
Unreimbursed Employee or Business Expenses	Unreimbursed expenses may be deducted from annual income or adjusted annual income with a two (2) year documented history.
Variable Income	Include amounts that will be received in the next 12 months.

Repayment Income

The following table outlines the updates made to Repayment Income.

Repayment Income Type	Update
4I.6(a) Variable Income	A minimum of one (1) year of variable income is required.
4I.6(b)(iii) Bonus, Overtime, and Commission Income	<ul style="list-style-type: none"> Income is acceptable if it has been received for at least one (1) year in the same or similar line of work. Significant increases or decreases of 20% or greater in income from the previous 12 months must be analyzed and documented (paid once annually, seasonal, holiday, etc.) before considering the income stable and eligible for qualifying.
4I.6 (c)(iv) Self-Employed Closed Business Loss	<p>Losses incurred from a self-employed business (full time or part-time) do not need to be included in the income calculation when all of the following is provided and satisfactory:</p> <ul style="list-style-type: none"> Letter of explanation and documentation for following: <ul style="list-style-type: none"> When the business was closed; Circumstances regarding business closing; How the business was closed; and Evidence to support business has closed and ceased operations.
4I.7(f) Employee Fringe Benefits	This income will be considered stable if borrower has been receiving for most recent years and it is likely to continue for next three (3) years.
4I.7(i) Expense Allowance	<ul style="list-style-type: none"> The full debt must be included in the DTI ratio The income must have been received for the most recent two (2) years.
4I.7(k) Guardianship/ Conservatorship Income	The income will be considered effective income provided it will continue for at least 12 months.
4I.7(p) Mileage Reimbursement	Reimbursement for mileage will be considered effective income with a one (1) year history of receipt. One of the

	<p>following is required:</p> <ul style="list-style-type: none"> • Most recent paystub; or • Most recent individual income tax return
4I.7(w) Retirement and Pension	<ul style="list-style-type: none"> • Most recent individual income tax return with all schedules; or • Benefit/Award verification letter, retirement documents, IRS 1099, evidence of current receipt, or bank statements, etc.
4I.7(bb) Secondary Income	A one (1) year history of working both the primary and second employment concurrently.
4I.7(hh) Unreimbursed Employee or Business Expenses)	<p>A two (2) year history of receipt of unreimbursed employee or business expenses is required. One (1) of the following is required:</p> <ul style="list-style-type: none"> • IRS Form 2106, Schedule A, Schedule C, or equivalent IRS filed form; or • Most recent two (2) years' individual income tax returns or IRS tax transcripts

Questions

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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