

Newrez Announcements



Announcement 2022-043 Smart Series Product Enhancements

June 2, 2022

Overview

Newrez LLC "Newrez" Approved Correspondent Clients: Newrez is updating our Smart Series product line as part of our continuing efforts to provide competitive, Non-QM financing options to our customers.

SmartEdge, SmartSelf, SmartVest Updates		
Topic	Current Guideline	New Guideline
Foreign Assets Chapter 5F.1(a)	The borrower's source of funds for the down payment and/or closing costs must comply with the Office of Foreign Assets Control (OFAC) Sanctions Programs for funds originating from countries with OFAC sanctions.	Underwriters must verify all foreign assets, including reserves comply with the Office of the Asset Control (OFAC) sanctions program for funds originating from countries with OFAC sanctions at to determine if there are any restrictions on transferring funds into the United States. If so, the assets are not permitted for consideration.
Cryptocurrency Chapter 5F.4(e)	Not allowed	Cryptocurrency is not an eligible asset; however, proceeds from the liquidation of cryptocurrency may be used for down payment, closing costs, or reserves with proof of liquidation or the transfer of the cryptocurrency converted into U.S.

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SmartEdge, SmartSelf, SmartVest Updates		
Topic	Current Guideline	New Guideline
		dollars and deposited into a bank account.
Payment Shock Chapter 5G.2	Transactions resulting in significant payment shock should be carefully considered by the underwriter	Removed statement
Appraisal Trainee Chapter 5I.1 (b)	<p>An unlicensed or uncertified appraiser, or trainee is permitted to perform a significant or all of the appraisal (if qualified to do so). If an unlicensed or uncertified individual provides significant professional assistance, they must sign the left side of the appraiser certification as the appraiser if:</p> <ul style="list-style-type: none"> • They are working under the supervision of a state-licensed or state-certified appraiser as an employee or sub-contractor; • The right side of the appraiser certification is signed by that supervisory appraiser; and • It is acceptable under state law. 	<p>Allow appraisal trainees.</p> <p>Unlicensed and trainee (or similar classification) appraisers may assist in developing and completing an appraisal assignment, provided the supervisory appraiser deems the trainee competent and the trainee's involvement complies with applicable State law. If an appraisal report is signed by an unlicensed or trainee (or similar classification) appraiser, a fully licensed supervisory appraiser must also sign the appraisal report as inspecting/non-inspecting supervisor (as applicable).</p> <p>The Supervisory Appraiser is not required to inspect the subject property or comparable sales with the trainee, except in the following circumstances:</p> <ul style="list-style-type: none"> • The sales price or market value exceeds <u>FHFA high-cost limits</u>; or • The property is complex, including but not limited to: <ul style="list-style-type: none"> ○ Complex or atypical properties; ○ Mixed-use property with residential and non-residential improvements; ○ Dwellings exceeding 5,000 square feet; and

SmartEdge, SmartSelf, SmartVest Updates		
Topic	Current Guideline	New Guideline
		<ul style="list-style-type: none"> ○ Properties with significant or unusual site improvements, such as a large indoor riding area. • The Supervisory Appraiser must sign the appraisal report.
Desktop Appraisal Chapter 5I.3 (a)	Silent	Not allowed
Hobby Farm Chapter 5I.8 (g)	Not allowed	<p>The requirements for the property to be considered are:</p> <ul style="list-style-type: none"> • Property must be residential in nature; • Single-family residence; • Owner occupied; • The market value of the subject property must be primarily a function of its residential characteristics and not the business use; • Gross income should be minimal and cannot be included as qualifying income. Any loss must be considered in the DTI ratio; • Commercial/agricultural use must be permitted by zoning and the subject property must conform to zoning; and • Significant outbuildings, such as silos, large barns, storage areas, or facilities for farm-type animals may indicate that property is agricultural in nature, and regardless of whether the appraiser assigns a value, would be ineligible for financing.

SmartEdge Updates		
Topic	Current Guideline	New Guideline
Condotel SmartEdge Product Profile	10% LTV reduction	<ul style="list-style-type: none"> • Purchase and Rate & Term Refi: Maximum 80% LTV/CLTV

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SmartEdge Updates		
Topic	Current Guideline	New Guideline
		<ul style="list-style-type: none"> • Cash-out Refi: Maximum 75% LTV/CLTV
	Must be established for three (3) or more years	Removed; align Fannie Mae
	Recreational leases outside of amenities used only by owners or HOAs are not allowed	Allow
	Mandatory golf memberships, beach clubs and dining memberships are not considered acceptable amenities	Allow
Maximum Cash Out SmartEdge Product Profile	Maximum cash-out may not exceed: <ul style="list-style-type: none"> • Primary and Second Home: <ul style="list-style-type: none"> ○ LTV ≤ 60% \$1,000,000 ○ LTV > 60% \$500,000 • Investment properties \$500,000 	Maximum cash-out may not exceed: <ul style="list-style-type: none"> • Primary, Second Home, and Investment Property: <ul style="list-style-type: none"> ○ LTV ≤ 60% \$1,000,000 ○ LTV > 60% \$ 500,000
First Time Homebuyer Living Rent Free SmartEdge Product Profile	Not allowed	Borrowers living rent free for more than two (2) months but no more than 12 months prior to the application date are permitted if: <ul style="list-style-type: none"> • The borrower has a 12-month payment history within the last three (3) years; • A letter of explanation confirming the borrower is living rent free with a relative and has no monthly rent (LOE signed by borrower and relative); • Purchase transactions; • Primary residence; • Maximum 43% DTI; • Additional three (3) months reserves; and • Residual income requirements must be met, regardless of DTI ratio.
W-2 Transcripts SmartEdge Product Profile	Tax return transcripts are required	Wage and Earning (W-2) transcripts are permitted when not using tax returns to qualify.

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SmartEdge Updates		
Topic	Current Guideline	New Guideline
Trade Line Requirements Chapter 5E.5 (b)(i)	<p>All borrowers are required to meet the following trade line requirements used to generate the credit score:</p> <ul style="list-style-type: none"> • Three (3) trade lines from traditional credit sources (such as a bank or other financial institution) that reported for 12 months or more prior to the date of loan application (may be opened or closed): <ul style="list-style-type: none"> ○ One (1) trade line must have a minimum 24-month rating; ○ One (1) trade line must have a minimum \$5,000 high credit limit; and ○ The seasoning and high credit limit may be met with the same trade line. 	<p>Allow supplemental nontraditional credit.</p> <p>All borrowers are required to meet the following trade line requirements used to generate the credit score:</p> <ul style="list-style-type: none"> • Three (3) trade lines from traditional credit sources (such as a bank or other financial institution) that reported for 12 months or more prior to the date of loan application (may be opened or closed); • One (1) trade line must have a minimum 24-month rating; and • Joint accounts count as one (1) trade line for each borrower. • If the trade line requirements cannot be met, the borrower may be qualified using supplemental nontraditional credit with the following: <ul style="list-style-type: none"> • One traditional trade line may be acceptable with two non-traditional trade lines, including the following: <ul style="list-style-type: none"> ○ Auto insurance payments ○ Life insurance policy payments ○ Medical insurance (except medical insurance deducted from paystub) ○ Rental housing payment history ○ Utility bill payments (electric, gas, water, phone, or cable/satellite/TV bill, etc.) <p>All of the following is required:</p>

SmartEdge Updates		
Topic	Current Guideline	New Guideline
		<ul style="list-style-type: none"> • Primary residence, purchase, and rate & term refinance transactions; • 0x30x12 for all credit references; • Credit references must be in the borrower's name; and • Credit references must be provided to a credit reporting vendor to create a nontraditional credit report/profile to validate payment history.
<p>Authorized User as Trade Line Chapter 5E.5 (b)(iii)</p>	Not allowed	<p>Align with Fannie Mae Authorized user accounts may be considered a trade line if one of the following is met:</p> <ul style="list-style-type: none"> • The owner of the account is a borrower of the transaction; or • The borrower can provide written documentation (e.g., cancelled checks, payment receipts, etc.) that evidences the account has been paid by the borrower for the most recent 12 months preceding the application date. <p>If written documentation of the borrower's monthly payments on the authorized user trade line is provided, then the payment history — particularly any late payments that are indicated — must be considered in the credit analysis.</p>
<p>Tax Transcripts "No Record Found" Chapter 5H.1 (a)(iv)</p>	Silent	<p>When the most recent year of tax transcripts are not available or is reported as "No Record Found," the following is required:</p> <ul style="list-style-type: none"> • If tax returns are not used to qualify, validate the income with The Work Number (TWN). If income is not reported to TWN,

SmartEdge Updates		
Topic	Current Guideline	New Guideline
		<p>obtain a Wage and Income Tax Transcript.</p> <ul style="list-style-type: none"> If tax returns are used to qualify, obtain the following: <ul style="list-style-type: none"> IRS stamped tax returns for the most recent year; The previous most recent two (2) years of transcripts; and Proof of tax refund or payment.
Short Term Rental Income Chapter 5H.6 (e)	Short term rental income not allowed	Airbnb or similar short-term rentals are permitted with the most recent two years' Schedule E, and a year-to-date income statement to support the rental payments received for the prior two (2) years.

SmartSelf, SmartEdge Updates		
Topic	Current Guideline	New Guideline
Primary Residence Exception Chapter 5A.6 (b)	Silent	Align with Fannie Mae The subject property can be considered a primary residence without the borrower occupying the property when: <ul style="list-style-type: none"> The borrower is purchasing a primary residence for a parent or legal guardian that is not able to work or has limited income; or The borrower is purchasing a primary residence for a disabled or handicapped adult child.
Primary Residence for Military Chapter 5A.6 (c)	Silent	Align with Fannie Mae <ul style="list-style-type: none"> A military service member borrower currently on active duty and temporarily absent from their primary residence because of military service is an owner occupant. Verify the borrower's temporary absence from the subject

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Topic	Current Guideline	New Guideline
		<p>property by obtaining a copy of the borrower's military orders.</p> <ul style="list-style-type: none"> The military orders must evidence the borrower will be absent from the subject property as of the date the owner occupancy must be established as required by the security instrument.
Court-ordered Assignment of Debt and Buyout Chapter 5G.5 (g)	The payment history of the debt need not be taken into consideration after the effective date of the assignment.	The payment history of the debt need not be taken into consideration after the effective date of the assignment. The payment history of the debt prior to assignment must be reviewed and taken into consideration.
Bonus, Overtime, Commission Income Chapter 5H.4 (b) Chapter 5H.4 (c)	<p>A period of more than two (2) years must be used in calculating the average overtime and/or bonus income if the income varies significantly from year to year.</p> <ul style="list-style-type: none"> Income received for less than two (2) years but not less than one year may be eligible with written justification for use of the income. Borrowers beginning employment with a new employer must have received bonus, incentive, or overtime income from the new employer in order to use for qualifying unless such bonus, incentive, or overtime income is guaranteed in writing as part of the borrower's employment agreement. Any guarantee must designate a specific dollar amount or percentage of income. 	<p>Align with Fannie Mae</p> <ul style="list-style-type: none"> A minimum history of two (2) years of employment income is recommended. However, income that has been received for at least 12 months may be acceptable as long as the borrower's employment profile demonstrates positive factors to offset the shorter income history. If the borrower has recently changed positions with their employer, determine the effect of the change on the borrower's eligibility and opportunity to receive bonus or overtime pay in the future.
Asset Based Income Chapter 5H.7 (b)	Not allowed on investment properties	Allow on investment properties
Seasonal Income Chapter 5H.7 (q)	Borrower must have worked uninterrupted in the same job or	Align with Fannie Mae

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	same line of seasonal work for the most recent two (2) years. The borrower must be employed at time of closing.	Removed borrower being employed at closing.

SmartSelf Updates		
Topic	Current Guideline	New Guideline
Insufficient Funds SmartSelf Product Profile	Maximum four in 12 months	<ul style="list-style-type: none"> • Maximum six NSF events in 12 months. • Multiple events are permitted in one day.
Rental Income Chapter 5H.6 (f)(vii)	A current lease must be provided for all transactions	<ul style="list-style-type: none"> • A current lease agreement(s) must be provided for all refinance transactions. An expired lease agreement that states the lease agreement becomes a month-to-month lease once the initial lease/rental term expires is permitted. • On purchase transactions, a Single-Family Rent Schedule (Form 1007/1000) is required to determine the monthly rental income that can be used to qualify.

SmartVest Updates		
Topic	Current Guideline	New Guideline
Condotels SmartVest Product Profiles	Not allowed	<p>Fannie Mae standard established condo project requirements must be met with the following exceptions:</p> <ul style="list-style-type: none"> • No subordinate financing • No first-time investors • Minimum 680 credit score • Maximum 45% DTI • Minimum 500 square feet with at least one separate bedroom, fully functioning kitchen (cooktop only is not permitted)

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SmartVest Updates		
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		<ul style="list-style-type: none"> • Must be in a resort area or metropolitan area with a project associated with nationally recognized high-end hotel brand (Ritz Carlton, Four Seasons, etc.) • No more than 15% of HOA dues may be 60 or more days delinquent • 10% HOA reserves required <ul style="list-style-type: none"> ○ If less than 10% but greater than 7.5% if the current reserve balance exceeds 10% of the operating expenses • No fractional ownership permitted (including timeshares) • Borrower must have exclusive use of the unit • Mandatory recreational leases permitted • Commercial space limited to 50% (parking is not included in the calculation) • Rental income may not be used for qualifying income • Occupancy restrictions or black-out dates are not permitted; must permit year-round occupancy • Appraised value must be supported by a minimum of three similar comparable sales with one comparable inside the subject project
First Time Investor Definition SmartVest Product Profiles	No definition	<ul style="list-style-type: none"> • A first-time investor is a borrower with less than one year of current landlord experience • Condotels not permitted
Short Term Rental Income SmartVest Product Profiles	If no rent is received for a month, use zero and continue to average over 12 months	<ul style="list-style-type: none"> • If no rent is received for a month, use zero and continue to average over 12-month period • A 24-month average is required

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Topic	Current Guideline	New Guideline
		when more than three months' rent are less than 50% of the monthly average of rental income
Large Deposits Chapter 5F.4 (b)	Documentation or explanation for large deposits is not required	<ul style="list-style-type: none"> For refinance transactions, documentation or explanation for large deposits is not required. For purchase transactions, large or irregular deposits must be evaluated to determine the borrower did not receive any gift funds.

Guideline Clarification		
Topic	Current Guideline	New Guideline
Maximum Number of Borrowers Chapter 5A.4	Silent	Maximum four borrowers
Second Home Definition Chapter 5A.6 (b)	Must be located in a recognized vacation area typical for second home properties	Removed; align with Fannie Mae

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

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