

Newrez Announcements



Announcement 2022-058 FHA Guideline Updates

August 1, 2022

Overview

Newrez LLC "Newrez" Approved Correspondent Clients, Newrez is updating our FHA Underwriting Guide to align with the following Mortgage Letters:

- Mortgage Letter [2022-09](#), Calculating Effective Income After a Reduction or Loss of Income for Borrowers Affected by Presidentially-Declared COVID-19 National Emergency.
- Mortgage Letter [2022-11](#), Revised Appraisal Validity Periods.

The changes announced in this announcement are effective immediately.

COVID-19 Related Economic Event refers to temporary loss of employment, temporary reduction of income, or temporary reduction of hours worked during the Presidentially-Declared COVID-19 National Emergency. The below outlines income calculation when the borrower's income was impacted by COVID-19. In all instances, the borrower or employer must address the COVID-19 event timeline and impact.

| Topic | Standard Guideline | Exception Due to COVID-19 Related Economic Event |
|-----------------------------|--|--|
| Salary Income | Use the current salary to calculate income. | Use the current salary to calculate income. |
| Hourly Income | <p>Employees paid hourly and whose <u>hours do not vary</u>: use the current hourly rate to calculate income.</p> <p>Employees paid hourly and whose <u>hours vary (variable income)</u>: average income over the previous two years. If an increase in pay rate can be documented, use the most recent 12-month average of the hours at the current pay rate.</p> | <p>Employees paid hourly and whose <u>hours do not vary</u>: Standard Guideline.</p> <p>Employees paid hourly and <u>whose hours vary (variable income)</u>: Use the lesser of:</p> <ul style="list-style-type: none"> • Standard Guideline using income prior to the COVID-19 Related Economic Event; or • Average income earned since returning to work after the COVID-19 Related Economic Event. <p>Example of Variable Income Pre-COVID-19</p> <p>2018 = \$52,000 2019 = \$56,000 2020 = \$18,000 $126,000 \div 28 = \\$4,500$</p> <p>Example of Return to Work 8/2021 4 months in 2021 = \$19,000 6 months in 2022 = \$37,400 $\\$56,400 \div 10 = \\$5,640$</p> <p>Lesser of the two is \$4,500</p> |
| Part-time Income | Average income over the previous two years. If an increase in pay rate can be documented, use the most recent 12-month average of the hours at the current pay rate. | <p>Employees paid hourly and whose <u>hours do not vary</u>: use the current hourly rate to calculate income.</p> <p>Employees who are paid hourly and <u>whose hours vary</u>, calculate the income by using the lesser of:</p> <ul style="list-style-type: none"> • Standard Guideline using the income prior to the COVID-19 Related Economic Event; or • Average income earned since returning to work after the COVID-19 Related Economic Event. |
| Overtime, Bonus, Tip Income | <p>Calculate the income by using the lesser of:</p> <ul style="list-style-type: none"> • The average of overtime, bonus or tip income earned over the previous two years (if less than two years, the length of time the income has been earned); or • The average of overtime, bonus or tip income earned over the previous year. | <p>Calculate the income by using the lesser of:</p> <ul style="list-style-type: none"> • Standard Guideline using income prior to the COVID-19 Related Economic Event; or • The average of overtime, bonus or tip income earned since returning to work after the COVID-19 Related Economic Event. |

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| Commission Income | <p>Calculate commission income by the lesser of:</p> <ul style="list-style-type: none"> • The average of commission income earned over the previous two years (or the length of time commission income has been earned if less than two years); or • The average of commission income earned over the previous year. | <p>Calculate commission income by the lesser of:</p> <ul style="list-style-type: none"> • Standard Guideline using income prior to the COVID-19 Related Economic Event; or • The average of the commission income earned since returning to work after the COVID-19 Related Economic Event. |
| Self-Employed Income | <p>Self-employment income is acceptable if:</p> <ul style="list-style-type: none"> • The borrower has been self-employed for at least two years. • The borrower has been self-employed between one and two years if the borrower was previously employed in the same line of work in which the borrower is self-employed or in a related occupation for at least two years. • If income obtained from business with annual earnings are stable or increasing. <p>If the income from the business shows a greater than 20% decline over the analysis period, the loan must be downgraded and manually underwritten.</p> | <p>Self-employment income may be acceptable if:</p> <ul style="list-style-type: none"> • The borrower has an aggregate self-employment history before and after the COVID-19 Related Economic Event totaling two years. • The borrower has an aggregate self-employment history before and after the COVID-19 Related Economic Event totaling between one and two years, the income may be considered if the borrower was previously employed in the same line of work in which the borrower is self-employed or in a related occupation for at least two years. <p>For self-employed borrowers with a COVID-19 Related Economic Event that have since regained income at a level less than 80% of their income prior to the COVID-19 Related Economic Event, the loan must be downgraded and manually underwritten.</p> <p><u>Manual Underwrite/Downgrade</u> Self-employment income may be considered stable after a 20% reduction with:</p> <ul style="list-style-type: none"> • Documentation that the reduction in income was the result of a COVID-19 Related Economic Event; • The borrower can demonstrate the income has been stable or increasing for a minimum of six months; and • The borrower qualifies using the reduced income. • |

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| Self-Employment Income Documentation | <ul style="list-style-type: none"> • Most recent two years' individual income tax returns and business tax returns, including all schedules. Business tax returns may be waived if: <ul style="list-style-type: none"> ○ Individual income tax returns show increasing self-employment income over the past two years; ○ funds to close are not coming from business accounts; and ○ The loan is not a cash-out refinance. • Year-to-date P&L statement and balance sheet if more than a calendar quarter has elapsed since the date of the most calendar or fiscal year-end tax period (balance sheet not required for Schedule C) | <p>For self-employed borrowers with a reduction of income due to a COVID-19 Related Economic Event, the following is required in addition standard self-employment income documentation:</p> <ul style="list-style-type: none"> • Letter of explanation for the time period of income loss or reduction; • Most recent two years' business tax returns (may not be waived); • And either of the following: <ul style="list-style-type: none"> ○ An audited year-to-date P&L statement reporting business revenue, expenses, and net income up to and including the most recent month preceding the case assignment date; or ○ An unaudited year-to-date P&L statement, signed by the borrower, up to and including the most recent month preceding the case number assignment date, and ○ Three of the most recent business bank statements no older than the latest three months represented on the year-to-date P&L statement. Monthly deposits on the business bank statements must support the earnings on the unaudited year-to-date P&L. |
| Self-employment Income Calculation | <p>Calculate gross self-employment income by using the lesser of:</p> <ul style="list-style-type: none"> • The average gross self-employment income earned over the previous two years; or • The average gross self-employment income earned over the previous one year. | <p>Self-employed borrowers with a COVID-19 Related Economic Event that have regained income at a level greater $\geq 80\%$ of their income prior to COVID-19 Related Economic Event for a minimum of six months, must calculate gross self-employment income by using the lesser of:</p> <ul style="list-style-type: none"> • The average gross self-employment income earned over the previous two years prior to the COVID-19 Related Economic Event; or • The average gross self-employment income earned over the previous six months after the COVID-19 Related Economic Event. |

| Topic | Standard Guideline | Exception Due to COVID-19 Related Economic Event |
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| | | <p>Example of Self-Employed Income Pre-COVID-19 Up Through March 2020 2018 = \$100,000 2019 = \$110,000 $\\$210,000 \div 24 = \\$8,750$</p> <p>Business Affected by COVID-19 from April 2020 through April 2021 2020 = \$30,000 2021 = \$70,000 6 months in 2022 (P&L) = \$60,000 $\\$60,000 \div 6 = \\$10,000$</p> <p>The income has not declined therefore a downgrade is not required $(\\$8,750 \times 80\% = \\$7,000)$</p> |
| <p>Gaps in Employment or Reduction of Income</p> | <p>Gaps in employment of six months or more (an extended absence), may be acceptable if the following is documented:</p> <ul style="list-style-type: none"> The borrower has been employed in the current line of work for at least six months at the time of case number assignment; and A two year work history prior to the absence from employment using standard or alternative employment verification. <p>A temporary reduction in income due to a short-term disability or similar temporary leave may be acceptable if:</p> <ul style="list-style-type: none"> The borrower intends to return to work; The borrower has the right to return to work; and The borrower qualifies for the loan taking into account any reduction of income due to the circumstance. | <p>Non-self-employed Borrower</p> <p>Gaps in employment, reduction of income, or reduction of hours due to a COVID-19 Related Economic Event: Calculate in accordance with the Exception Due to COVID-19 Related Economic Event for the applicable income type if the following is documented:</p> <ul style="list-style-type: none"> The borrower has been employed in the current job or same line of work for at least one month at the time of case number assignment; or The borrower has been employed in a different job or line of work for at least six months at the time of case number assignment and the borrower has an aggregate two-year work history prior to case number assignment excluding gaps in employment, using traditional or alternative employment verification. <p>Required Documentation</p> <ul style="list-style-type: none"> Written Verification(s) of Employment identifying the time period of temporary loss of employment, temporary loss of income, or temporary loss of hours. <p>Self-Employment Income</p> <ul style="list-style-type: none"> For borrowers with gaps in self-employment, reduction in income, or reduction of hours due to a COVID-19 Related Economic Event, the months where the business was closed, or income was reduced may be excluded |

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| | | <p>when calculating income.</p> <ul style="list-style-type: none"> The total time period of the borrower's self-employment must still meet the minimum length of self-employment in accordance with Exception Due to COVID-19 Related Economic Event. |

| Topic | Current Guideline | New Guideline |
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| <p>2A Eligibility 2A.9 Documentation Age Appraisal Validity</p> | <p>The effective date of the appraisal report must not be more than 120-days on the disbursement date. The 120-day validity period for an appraisal may be extended for 30 days if:</p> <ul style="list-style-type: none"> The loan was approved prior the expiration of the original appraisal (by HUD or lender); or The borrower signed a valid sales contract prior to the expiration date of the appraisal. | <p>The initial appraisal validity period is 180 days from the effective date of the appraisal report.</p> |
| <p>2A Eligibility 2A.9 Documentation Age Appraisal Update</p> | <p>The original appraisal may be updated if the initial appraisal, with no extension, has not yet expired. The updated appraisal is valid for 240 days after the effective date of the initial appraisal report being updated. Use the Appraisal Update and/or Completion Report (Form 1004D/70) to update the initial appraisal. A new appraisal is required when one of the following exists:</p> <ul style="list-style-type: none"> The appraisal date is more than 240 days from the effective date of the original date of the appraisal; The appraiser indicates in the appraisal update that there has been a market change since the original appraisal report was issued; or The update indicates material defects. When the appraisal expires, a new appraisal will have to be ordered and a new FHA case number will have to be issued. | <p>An appraisal update may be used only if:</p> <ul style="list-style-type: none"> It is performed by an FHA appraiser who is currently in good standing on the FHA Appraiser Roster <ul style="list-style-type: none"> If a substitute appraiser is used due to the lack of the original appraiser availability, the substitute appraiser must state they concur with the analysis and conclusions in the original appraisal report. The file must document in the case binder why the original appraiser was not used; The subject property has not declined in value; The building improvements that contribute value to the subject property can be observed from the street or a public way; The exterior inspection of the subject property reveals no deficiencies or other significant changes; The appraisal update was performed by the appraiser within one year from the effective date of the initial appraisal being updated; and The appraisal update is performed before the disbursement date. |

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| | | <p>A new appraisal is required when one of the following exists:</p> <ul style="list-style-type: none"> • The appraisal date is more than one year from the effective date of the original date of the appraisal; • The appraiser indicates in the appraisal update that there has been a market change since the original appraisal report was issued; or • The update indicates material defects. |
| <p>2A Eligibility 2A.9(a) Handling of Documents</p> | <p>Documents, including third party verifications, relating to the employment, income, assets, or credit are not acceptable if they have been handled by or transmitted from or through unknown parties, or interested parties.</p> | <p>Documents, including third party verifications, relating to the employment, income, assets, or credit are not acceptable if they have been handled by or transmitted from or through unknown parties, interested parties, or the borrower.</p> |
| <p>2A Eligibility 2A.9(a) Information Obtained via the Internet</p> | <p>All documents obtained from an internet website must be validated by examining portions of printout(s) downloaded from the internet including:</p> <ul style="list-style-type: none"> • The Uniform Resource Locator (URL) address; and • The date and time the documents were printed. The URL or main website listed in the URL (if page is password protected) must be visited to verify that the website exists. Print out evidence to show that the URL and website was visited. Documentation obtained through the internet must contain the same information as would be found in an original hard copy of the document. | <ul style="list-style-type: none"> • Documents obtained from an internet website must be authenticated and printouts downloaded from the internet must be examined. • Documentation obtained through the internet must contain the same information as would be found in an original hard copy of the document. |
| <p>Streamline Refinance Product Profile - Occupancy</p> | <ul style="list-style-type: none"> • Provide evidence that the borrower currently occupies the property as their primary residence as of case number assignment date with one of the following: <ul style="list-style-type: none"> ○ employment documentation, or ○ current utility bill ○ loan must be processed as a non-owner-occupied property if evidence cannot be obtained. | <ul style="list-style-type: none"> • Provide evidence that the borrower currently occupies the property as their primary residence as of case number assignment date with one of the following: <ul style="list-style-type: none"> ○ employment documentation ○ current utility bill ○ direct electronic verification by a third-party verification vendor verifying the borrower's address is the same as the subject property ○ loan must be processed as a non-owner-occupied property if evidence cannot be obtained. |

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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