

# Newrez Announcements



## Announcement 2023-076 Underwriting Guideline Updates

**October 30, 2023**

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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 as of 10.30.2023
- This memo also includes a summary of:
  - Previously announced guidelines that 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.*

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### Agency Announcements

Freddie Mac Bulletin [2023-19](#) and Fannie Mae [SEL- 2023-09](#) were both released on October 4, 2023 and Newrez is aligning with the following topics below.

Unless otherwise noted, underwriting guidelines below are effective immediately and the Newrez Underwriting Guide will be updated to reflect these changes with the November 30, 2023, release.

### **Rental Income Requirements**

The following requirements have been updated:

- Rental lease term requirement for a one year minimum has been removed.
- For newly executed leases, the first rental payment due date may be no later than the first mortgage payment due date.
- Two months proof of rental income may be evidenced with cashed or deposited rental payments in borrower's bank account or transferred into a borrower's owned third-party money transfer application account including PayPal, Venmo, Zelle, etc.
- Permitting documentation of receipt of the security deposit plus first months' rental payment, in lieu of receipt of two months' rental payments.
- The Rental Income table was reformatted for no cash out refinance transactions for Primary residence, 1 unit dwelling, with income requirements from an ADU based on lease executed in current calendar year or prior year.
- Removed the requirement that at least one comparable sale must have a rented ADU, when rental income from an ADU is being used to qualify borrower on subject 1-unit primary residence.

Newrez Underwriting Guide will be updated in following chapters:

- Chapter 1I Employment and Income
- Chapter 1J Appraisal Requirements

### **Desktop Appraisals**

Eligibility requirements for desktop appraisals include:

- Refinance mortgages and mortgages secured by mixed-use properties are not eligible for a desktop appraisal.
- Super conforming mortgages meeting eligibility may be originated with a desktop appraisal instead of an interior and exterior inspection.

- Removed requirement for last feedback certificate must reflect desktop eligibility. In addition, guidance has been added that an appraisal report that exceeds the minimum collateral assessment requirement indicated by the last feedback certificate, may be acceptable provided the eligibility requirements for the selected appraisal type is met.

Newrez Underwriting Guide, Chapter 1J Appraisal Requirements will be updated with this information.

### **Transition to Uniform Property Dataset (UPD)**

For mortgages with application received dates on or after December 1, 2023, the UPD will be available for use in completing PDRs, and the enhanced bACE API will also be available to support submission of a PDR using either the Freddie Mac Property Dataset (PDR v2.0) or the UPD.

For mortgages with application received dates on or after April 1, 2024, it will be required to use the UPD and submit PDRs to Freddie Mac using the bACE API. The Freddie Mac Property Dataset (PDR v2.0) will no longer be accepted.

As a reminder, the PDR must always be retained in the Mortgage file.

Newrez Underwriting Guide, Chapter 1J Appraisal Requirements has been updated with this information.

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### **Fannie Mae Announcement [SEL- 2023-09](#)**

Unless otherwise noted, underwriting guidelines below are effective immediately and the Newrez Underwriting Guide will be updated to reflect these changes with the November 30, 2023, release.

#### **Rental Income**

- Rental income may be used for qualifying purposes for non-subject rental properties that became rental properties within the last 12 months (investment properties or

two-to -four primary residences) and will align with guidelines for rental income earned from the subject property. To qualify using the full amount of rental income, the borrower must have a primary housing expense and at least one year history of property management experience.

- Fannie Mae guide aligns with DU functionality when rental income is considered from multiple rental properties, the income or loss will be calculated both on a per property basis and then aggregated for non-subject properties for a total amount of either income or loss for all rental properties is considered in the borrower's total debt to income calculation.
- Rental lease income must be supported by documentation in file:
  - Form 1007 or Form 1025 must support the income reflected on the lease agreements or
  - Proof of receipt of at least two months' rental payments must be provided to support the terms of the lease income.

## **Self-Employed Borrowers**

### Length of Self-Employment

- Income will continue to be considered for borrowers with less than two years of self-employment, as long as the borrower's most recent signed personal and business federal income tax returns reflect a full year (12 months) of self-employment income from the current business. Documentation must also support the history of receipt of prior income at the same (or greater) level and
  - In a field that provides the same products or services as the current business, or
  - In an occupation in which they had similar responsibilities to those with the current business.

### **Tax return requirements for Self Employed Borrowers**

- The lender may provide one year of personal and business tax returns, if the following are met:
  - All self-employed businesses have been in existence for five years, and

- The borrower has had a 25% or greater ownership interest in the business for the last five consecutive years, and
  - For partnerships, S Corporations and corporations, the federal income tax return for the business must support the information reflected on the application. If the business was in existence prior to the borrower having 25% or ownership, evidence the borrower has had 25% or more ownership for at least five consecutive years.
  - For sole proprietorships, the individual federal tax return and any other documentation must support the number of years the business has been in existence as shown on the URLA.
- All businesses are assessed separately for the five-years in existence benchmark and the number of years of personal and federal income tax returns required could differ when there are multiple self-employment income sources.
- The lender must complete Fannie Mae's *Cash Flow Analysis (Form 1084)* or any other type of cash flow analysis form that applies the same principles. A copy of the written analysis must be included in the permanent loan file.

**Note:** Alternative documentation to establish the number of years the borrower has ownership of 25% or more in a business may be obtained as long as the documentation clearly identifies the specific business listed on the Form 1003 and is supported by the most recent year tax returns.

Documentation must be obtained through a reliable source, such as:

- an IRS-Issued Employer Identification Number Confirmation letter, or
- business license, or
- articles of incorporation, or
- partnership agreements.

Newrez Underwriting Guide, Chapter 11 Employment and Income, will be updated with this information.

## **Manufactured Homes**

The current policy for manufactured home appraisal reports requires photo exhibits of both the HUD Data Plate and HUD Certification Label. This policy has been updated with only one of the two is required as shown below:

- HUD Data plate or
- HUD Certification label(s) - for each section of the home

If neither of these are available, the following options are available to obtain the documentation:

- Either a Label Certification letter with the HUD Certification Label(s) Information or duplicate HUD Data Plate/compliance Certificate from the Institute for Building Technology and Safety, or
- Contact the manufacturer or the In-Plant Primary inspection agency for the required information.

Newrez Underwriting Guide, Chapter 1D, Property Types, will be updated with this information.

## **Value Acceptance + Property Data (DU transactions)**

Clarification has been provided that the Property Data collection must be obtained and submitted to the Property Data API prior to the note date.

Newrez Underwriting Guide, Chapter 1J Appraisal Requirements, will be updated with this information.

## Newrez Underwriting Guide Updates

### Chapter 1E Underwriting

Modified DU submission policy for to reflect, Reserves: Resubmit if the reserves required to be verified per the DU report decrease by more than 10%.

Complete guidelines can be found in the Conventional Underwriting Guide, Chapter 1E, Underwriting, 1E.2(e) Desktop Underwriter Data and Data Delivery Information Accuracy

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### Chapter 1I Employment and Income

- Clarified for LPA transactions, that no rental income, from the ADU, may be used to qualify if the ADU is illegal.
- For Notes Receivable Income identified for Freddie Mac LPA transactions, the three-year continuance is measured from the note date.

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

- 1I.12(b) Rental Income from a One-Unit Primary Residence with an ADU
- 1I.13(v) Notes Receivable

### Chapter 1J Appraisal Requirements

Identified for LPA transactions, rental income may not be used to qualify from an illegal ADU.

Complete guidelines can be found in the Conventional Underwriting Guide, Chapter 1J, Appraisal Requirements, 1J.7 (I)(ix) Accessory Dwelling Units (ADU)

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## FHA Updates

### Chapter 2A Eligibility

The following requirements were updated to support FHA 4000.1 update effective 11.7.2023:

- Borrower must receive all the most recent versions of all required federal and state disclosures during the origination process.
- Clarified, except for appraisals, age of credit documents is maximum of 120 days at disbursement date.
- When the initial appraisal report will be more than 180 days at disbursement date, validity period may be extended with an appraisal update. Appraisal update must be ordered prior to the expiration date.
- Identified occupancy documents are not acceptable if handled or transmitted by unknown parties, interested parties.
- Expanded non-permanent resident eligibility work documents to show:
  - Employment Authorization Document, Form I-766/EAD, to show work authorization status is current and
  - a USCIS Form I-94, Arrival/Departure Record, evidencing B-1B status and evidence of employment by the authorized H-1B employee for a minimum of one year.

Complete guidelines can be found in the FHA Underwriting Guide, Chapter 2A, Eligibility in the following sections:

- Section 2A.7 Loan Application
- Section 2A.10 Documentation Age
- Section 2A.10(a) Handling of Documents
- Section 2A.12 © Non-Permanent Resident

### Chapter 2F Credit

- Requirement removed for all borrowers to have a credit score. Refer to individual profiles for credit score requirements.
- Clarified for Nontraditional Credit
  - Qualifying ratios for borrowers with no credit score are calculated using occupying borrower's income only.



- Non-occupant co-borrower income may not be included
- Identified rental payments are considered to be on time, when payment is received within the month due.

Complete guidelines can be found in the FHA Underwriting Guide Chapter 2F, Credit, in the following sections:

- 2F.3 (a) Credit Scores
- 2F.5 Nontraditional Credit
- 2F.8 (a) Positive Rental Payment History Using TOTAL Mortgage Scorecard

## **Chapter 2G Assets**

Clarified borrower is entitled to net sale proceeds when documents support an arms-length transaction.

Complete guidelines can be found in the FHA Underwriting Guide Chapter 2G, Assets, 2G.4(s) Sale of Real Estate

## **Chapter 2I Employment and Income**

Added income from a foreign source is acceptable when tax returns with all schedules are received and supports the foreign income and the income is reasonably likely to continue.

Complete guidelines can be found in the FHA Underwriting Guide Chapter 2I, Employment and Income, 2I.6(j) Foreign Income Earned by a U.S. Citizen

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## **VA**

### **Chapter 3F Credit**

Requirement removed for all borrowers to have a credit score. Refer to individual profiles for credit score requirements.

Complete guidelines can be found in the VA Underwriting Guide, Chapter 3F, Credit, 3F.3 (a) Credit Scores

## **USDA**

### **Chapter 4A Eligibility**

Identified the CAIVRS system is unavailable at time of application, CAIVRS must be manually retrieved and the retrieved CAIVRS number manually entered into the applicable CAIVRS number block.

Complete guidelines can be found in the USDA Underwriting Guide, Chapter 4A, Eligibility, 4A.1(a) Delinquent Federal Non-Tax Debt (CAIVRS)

### **Chapter 4E Automated Underwriting**

Added following guidelines when GUS is used for underwriting:

- Confirm the assets entered into GUS and used as reserves are funds available to the applicant's post-closing.
- Review auto-calculated rental income which employs a 25% vacancy factor and uses 75% of the rental income entered for monthly rental income and subtracts the lender entered amounts for monthly mortgage payment(s) insurance, taxes, association dues, etc.

Complete guidelines can be found in the USDA Underwriting Guide, Chapter 4E, Automated Underwriting, 4E.1 Guaranteed Underwriting System

### **Chapter 4F Credit**

Requirement removed for all borrowers to have a credit score. Refer to individual profiles for credit score requirements.

Added following updates:

- All housing payments made within the previous 12 months must be verified and documented. Rent or mortgage payments from a family member or other interested party will not be considered unless 12 months of canceled checks, money order receipts or electronic payment confirmations are provided.

- Transactions involving a significantly higher proposed mortgage payment in comparison to the current housing payment, or reflect no previous housing obligations, should be closely evaluated for risk and borrower's ability to repay the new mortgage obligation.
- For loans manually underwritten, rental payments paid 30 or more days late within the last 12 months, must obtain documentation for file to support loan approval.
- Identified a timeline for loan eligibility is within seven years prior to note date for a previous USDA Section 502 or Guaranteed loan resulted in a loss.
- Removed requirement for outstanding federal judgements to be satisfied and identified federal tax debt is eligible with proof of approved IRS repayment plan with:
  - Evidence of 3 timely payments paid within month due.
  - Payments must be included in DTI.
  - Copy of payment agreement.
  - If borrower has multiple approved IRS repayment plan(s), supporting documentation must be in file to support an acceptable credit risk.

Complete guidelines can be found in the USDA Underwriting Guide, Chapter 4F, Credit, in the following sections:

- 4F. 2 (a) Credit Scores
- 4F.6 Housing Payment History
- 4F.7(a) Waiting Period Requirements
- 4F.7(b) Delinquent Credit

## **Chapter 4G Assets**

The following updates are being released:

- When using business assets for reserves, use the lesser of current bank statement or Verification of Deposit, if dated after the bank statement printout.
  - Clarified online transaction printouts, registers or lists are not permitted in lieu of bank statements.
- Gift funds are considered the applicant's own funds, and excess gift funds are eligible to be returned to the applicant at loan closing.

Complete guidelines can be found in the USDA Underwriting Guide, Chapter 4G, Assets, in the following sections:

- 4G.3(c) Business Assets
- 4G.3 (i) Gift Funds

## **Chapter 4I Employment and Income**

The following assets are considered in annual income and guidelines provided:

- **Business Assets** – clarified the following needs to be considered:
  - Verify the assets are maintained in a business account and not transferred between personal and business accounts.
  - These accounts should function as two separate financial tools, one for personal and one for business.
  - If the assets are co-mingled from the business and personal bank accounts, the co-mingled assets would need to be included in the calculation of net family assets.
- **Household Assets/Cumulative Net family assets** – This new section has been added to reflect:
  - Cumulative (non-retirement) net family assets of \$50,000 or greater, must these assets review for annual income purposes.
  - Net family assets with actual earnings will use the stated rate of interest to calculate annual income.
  - Net family assets that do not earn interest will use a current passbook savings rate (verified through the lender's personal banking rates, including on-line websites, etc.) to calculate annual income.

Complete guidelines can be found in the USDA Underwriting Guide, Chapter 4I Employment and Income, 4I.4(a)(i) Assets Considered in Annual Income

## Prior Agency Announcements

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

<b>Newrez Guide</b>	<b>Topic</b>	<b>Newrez Announcement</b>	<b>Agency Announcement</b>
1B.2(c) 1B.3(b)(ii)	No Cash Out refinance  Cash out refinance Eligibility	2023-70	Freddie Mac Bulletin 2023-18
1H.4(t) Student Loans	Income Driven repayment plans	2023-70	Freddie Mac Bulletin 2023-18
1D.1(i) Manufactured Housing	Seasoning requirements for cash out refinance	2023-70	Freddie Mac Bulletin 2023-18
1G.3(l) Gift Funds	Donor eligibility expanded	2023-70	Fannie Mae SEL 2023- 08
1I.13(jj) Trust Income	Trust fund requirements	2023-70	Fannie Mae SEL 2023- 08

## Product Profile Releases and Overlay Matrix Updates

- **Product Profiles Releases**

- FHA Nontraditional Credit Update

- When qualifying a borrower using FHA Nontraditional Credit, the qualifying ratios for borrowers with no credit score are calculated using occupying borrower's income only.
    - Non-occupant co-borrower income may not be included.

- **Overlay Matrix Update – n/a**

### **Newrez Reminder: Homebuyer Education and/or Landlord Counseling**

When the product or program requires a Homebuyer Education and/or Landlord Counseling, the certification must be dated on or before the note date.

All sellers must have documented procedures to ensure the certifications occurred on or before the note date, meeting both Newrez and Agency requirements.

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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**

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