

# Newrez Announcements



## Announcement 2022-080 Conventional Conforming Underwriting Guide Updates November 2, 2022

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### Overview

Newrez LLC "Newrez" Approved Correspondent Clients; effective immediately, for all loans in pipeline, we are aligning with Freddie Mac Bulletins [2022-18](#) and [2022-20](#) and Fannie Mae Announcements [SEL-2022-08](#) and [SEL-2022-09](#).

Freddie Mac Bulletins	Fannie Mae Announcements
Freddie Mac Bulletin <a href="#">2022-18</a> <ul style="list-style-type: none"><li>Income reported on IRS Form 1099</li><li>Gift funds and gift letter requirements</li></ul>	Fannie Mae <a href="#">SEL 2022-08</a> <ul style="list-style-type: none"><li>Gifts donors</li><li>Transfer of gift funds</li></ul>
Freddie Mac Bulletin <a href="#">2022-20</a> <ul style="list-style-type: none"><li>Schedule K-1: Business ownership Interest Less Than 25%</li><li>Desktop Appraisals</li><li>Property Eligibility and Appraisals- Prohibited Language</li><li>Condo Project Advisor</li><li>Co-op Corporation Hazard Insurance Requirements</li></ul>	Fannie Mae <a href="#">SEL-2022-09</a> <ul style="list-style-type: none"><li>Social Security Income</li><li>Retention of Asset Verification Reports</li></ul>

## Income Reported on IRS Form 1099

The underwriting guide is being updated with additional guidance for borrowers who receive income reported on IRS Form 1099. The updated requirements include, but are not limited to the following requirements:

- IRS Form 1099(s) for services performed for most recent two (2) years
- At a minimum, pages 1 and 2 of the most recent one (1) year individual income tax return, including applicable Schedules (Schedule C, Schedule 1)
- Year-to-date income documentation (such as paystubs, earning statements)

A two-year history of receipt is required. However, a shorter history of not less than 12 months documented on the individual income tax returns may be considered stable if with a written analysis and supporting documentation.

Previously, Freddie Mac provided limited guidance on IRS Form 1099 income received as a contractor or contingent worker that was reported on Schedule C. With this update, guidance is being provided to determine how to treat the income on Schedule C—as a self-employed sole proprietor or a non-self-employed borrower.

If the most recent Schedule C evidences the following, the borrower will not be considered self-employed:

- Gross receipts or sales are equal to the total amount(s) reported on IRS Form 1099(s)
- Total expenses are  $\leq 5\%$  of gross receipts or sales after deducting non-cash expenses (e.g., depreciation)
- Cost of goods sold = \$0
- 12-month history of 1099 income and reported expenses

Complete guidelines can be found in the Conventional Underwriting Guide, Chapter 11 Employment and Income, Section 11.13(n) Income Reported on IRS Form 1099.

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## Graduation Gifts

Graduation gifts are now an eligible source of funds for a primary residence purchase transaction. All of the following must be obtained:

- The gift may be from related and unrelated persons;
- A copy of the diploma or transcripts that supports the date of graduation;
- Verification of the gift funds in the borrower's bank account; and
- The gift funds must be deposited in the borrower's bank account within 90 days of the date of graduation.

Complete guidelines can be found in the Conventional Underwriting Guide, Chapter 1G Assets, Section 1G.4 (I) Gift Funds.

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## Schedule K-1: Business Ownership Interest Less Than 25%

A summary of the new documentation and requirements include, but are not limited to, the following:

- Most recent two (2) years' Schedule K-1(s);
- Year-to-date income documentation. Documentation and justification of the stability of income is required if year-to-date cannot be obtained.
- The borrower should not have an ownership interest of 25% or more in any business.
- A two-year history of receipt is required. However, a shorter history of not less than 12 months may be considered stable with written analysis and sufficient supporting documentation.
- Historical cash distributions must be reasonably consistent with the ordinary business income.

Complete guidelines can be found in the Conventional Underwriting Guide, Chapter 1I Employment and Income, Section 1I.13 (o) Income Reported on Schedule K-1.

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## Desktop Appraisals

Desktop Appraisal eligibility has been expanded to include properties subject to age-based resale restrictions and leasehold estates.

Complete guidelines can be found in the Conventional Underwriting Guide, Chapter 1J Appraisal, Section 1J.4(a) List of Appraisal Report Forms.

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## **Gift Donors and Gift Funds Transfer**

Fannie Mae has expanded gift donor eligibility to include a non-relative that shares a familial relationship with the borrower, specifically a relative of a domestic partner, godparent, or former relative.

In addition, when the gift funds are transferred at closing, evidence of electronic transfer of funds from the donor's account to the borrower's account or to the closing agent may be acceptable.

Complete guidelines can be found in the Conventional Underwriting Guide, Chapter 1G Assets, Section 1G.4 (I) Gift Funds.

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## **Social Security Income**

The documentation options have been expanded for borrowers drawing Social Security income from their own account or work record.

In addition to the Social Security Administration's (SSA) Award letter or proof of current receipt, the following is allowed to serve as adequate documentation of retirement or disability benefit:

- The SSA-1099 or
- Most recent signed federal income tax returns (or tax transcripts)

DU messages will be updated in a future release.

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

- Section 1I.13 (cc) Social Security Retirement Income
  - Section 1I.13 (dd) Social Security Disability Income
  - Section 1I.13 (ee) Supplemental Social Security Income
  - Section 1I.13 (ff) Social Security Survivor Benefit Income
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## Retention of Asset Verification Reports

When Desktop Underwriter uses 12 months of borrower asset data for assessment of rent payment history, the full asset verification report containing the 12 months of asset data is not required to be retained as part of the loan origination file. The following requirements apply:

- The Client and Newrez must have access to the full asset verification report containing the data that was provided to DU for assessment.
  - A human-readable asset verification report covering a minimum of 60-days must be retained in the loan origination file.
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## Property Eligibility and Appraisals-Prohibited Language

Freddie Mac added the following prohibited language examples:

- Consideration of the race, color, religion, sex, sexual orientation, gender identity, age, marital status, disability, familial status, exercise of any federally protected civil right, receipt of income derived from any public assistance program, birthplaces of residents at the property or in the neighborhood, national origin of the prospective owners or occupants of the subject property or of the present owners or occupants of the properties in the vicinity of the subject property.
- Use of unsupported or subjective terms to assess or rate, such as, but not limited to, “high,” “low,” “good,” “bad,” “fair,” “poor,” “strong,” “weak,” “rapid,” “slow,” “fast” or “average” without providing a foundation for analysis and contextual information.
- Incorporating terminology or veiled language that may be code words that could indicate underlying bias that include, but are not limited to, “pride of ownership,” “crime-ridden area,” “desirable neighborhood or location” or “undesirable neighborhood or location,” “gentrified,” “preferred community,” “up and coming,” predominantly Hispanic or Black neighborhood, substantial amount of Black or Hispanic residents at the property, diverse school system, amenities specifically geared to a race, ethnic or religious group or using terms such as Millennials, Generation X, or Baby Boomer.

Complete guidelines can be found in the Conventional Underwriting Guide, Chapter 1J Appraisal, Section 1J.2 Unacceptable Appraisal Practices.

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# Cooperative Corporation Hazard Insurance Requirements

Freddie Mac has updated requirements for hazard insurance for Cooperative Corporations. Currently, it is required that the Cooperative Corporation’s policy provide insurance coverage for fixtures, improvements, alterations, and equipment within the individual cooperative units. It is now required that an H-06 unit owner’s policy is obtained to insure these items when they are not included in the cooperative corporation’s policy.

## Condo Project Advisor

At this time, we are still evaluating Condo Project Advisor requirements. A future announcement will be issued with additional information.

## Underwriting Guide Updates and Clarifications

The following clarifications have been made and are effective immediately.

Topic and Chapter	Guideline Update or Clarification
Leasehold Estate 1A.12(b) Leasehold Estate Update	Freddie Mac LPA <ul style="list-style-type: none"> <li>• Manufactured housing is not eligible on a leasehold estate</li> </ul>
Principal Curtailment 1C.7 Principal Curtailment Clarification	A principal curtailment may be applied for the following reasons: <ul style="list-style-type: none"> <li>• To refund the overpayment of fees or charges paid by the borrower, in any amount, in accordance with applicable regulatory requirements.</li> <li>• If the borrower receives more cash back than is permitted for a rate and term refinance, a principal curtailment may be applied to reduce the amount of cash back to the borrower to bring the loan into compliance with the maximum cash-back requirement.</li> <li>• The maximum amount of the curtailment cannot exceed the lesser of \$2,500 or 2% of the original loan amount for the subject loan.</li> </ul>

	<p>For example, if the borrower received \$3,500 cash back at closing on a loan amount of \$200,000, a \$1,500 curtailment made be made. This would result in “net cash back” to the borrower of \$2,000, meeting the rate and term incidental cash back requirement.</p> <p>Principal curtailments cannot be used to solve for eligibility issues such as excessive contributions or LTVs.</p>
<p>Simultaneous Second Home or Investment Property Transactions 1G.2(a) Simultaneous Second Home or Investment Property Transactions</p>	<p>Added the following:</p> <ul style="list-style-type: none"> <li>• If processing multiple second home or investment property applications simultaneously, the same assets may be used to satisfy the reserve requirements for both applications. Reserves are not cumulative for multiple applications.</li> </ul>
<p>Future Income 1I.13(l)(iv) Freddie Mac LPA Clarification</p>	<p>Freddie Mac Option 1 Future Income</p> <ul style="list-style-type: none"> <li>• Added clarification that when using income from future employment, the borrower must have adequate income and/or liquid assets to pay the PITIA and all other monthly liabilities between the Note date and the start date of new employment plus an additional one (1) month reserves. A partial month is counted as one (1) month for the purpose of this calculation.</li> <li>• All other guideline for future income apply.</li> </ul>
<p>Escrow Holdback Policy 8A.4(a)(i) Clarification</p>	<p>If the appraiser reports the existence of minor conditions or deferred maintenance items that do not affect the livability, soundness, or structural integrity of the property, the appraiser may complete the appraisal “as is.” However, if the appraiser completes the appraisal “subject to repairs” an escrow for repairs does not need to be established, unless the minor deferred maintenance cannot be completed due to weather, or a material shortage. Repairs must be completed as required by the appraiser prior to closing if an escrow account is not established.</p>
<p>Power of Attorney 9A.6 VA (Ginnie Mae) 9A.7 USDA (Ginnie Mae)</p>	<ul style="list-style-type: none"> <li>• A POA may be used on a VA cash-out refinance transaction when the Veteran-borrower is on active duty.</li> <li>• Updated USDA policy to allow Power of Attorney.</li> </ul>

## 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](http://Newrezcorrespondent.com)

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## Client Development

We offer a comprehensive training curriculum on Newrez products and processes, to keep your staff informed of the latest developments in products, technology solutions, compliance issues and process improvements. Each of these programs is offered by our training and development staff on a monthly basis and is updated regularly to reflect recent changes in the industry. Visit our [training site](#).