

Newrez Announcements



Announcement 2023-082 Underwriting Guideline Updates – Government

November 30, 2023

Newrez LLC "Newrez" Approved Correspondent Clients; this announcement contains the following information:

- Most recent FHA Mortgage Letter, effective immediately for all loans in the pipeline, unless otherwise noted.
- Clarifications and/or corrections to the Newrez Guides as of 11.30.2023
- This memo also includes a summary of:
 - Previously announced guidelines 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.

FHA Announcement

FHA Mortgagee Letter [2023-17](#)

FHA Mortgagee Letter [2023-17](#) announced revisions to rental income policies, property eligibility, and appraisal protocols for Accessory Dwelling Units (ADUs).

FHA has updated the definition to clarify an ADU is a single habitable living unit with means of separate ingress and egress that meets minimum requirements for a living unit. The ADU is a private space that is subordinate in size to the one-unit single family dwelling.

Documentation of Rental Income (Subject Property)

The rental income from the one-unit subject property's ADU may be considered effective income for qualifying. The documentation varies depending on the length of time the borrower has owned the property.

Limited or no history of rental income: When the borrower does not have a history of rental income from the subject since the previous tax filing:

- Uniform residential Appraisal Report (Fannie Mae Form 1004/Freddie Mac Form 70)
- Single Family Rent Schedules showing fair market rents and
- Prospective leases (if available)

History of Rental Income: Where the borrower has a history of rental income from the subject property since the previous tax filing:

- Provide the most recent two years tax returns including schedule E
- For properties owned less than 2 years, document the date of acquisition by providing a copy of the deed, Closing Disclosure or other legal document.

Calculation of Rental Income (Subject Property)

The net subject property rental income must be added to the borrower's gross income and may not reduce total mortgage payment by the net subject property rental income.

Limited or no history of rental income:

If borrower does not have a history of receiving rental income from the subject property since previous tax filing, rental income is based on 75% of the lesser of:

- Fair market rent reported by the appraiser; or
- Rent reflected in the lease or other rental agreement.

The rental income from an ADU may not exceed 30% of the total effective income used to qualify borrower.

History of Rental Income: Rental Income is calculated by:

- Averaging the Schedule E
- If the property has been owned for less than 2 years, annualize the rental income for the length of time the property has been owned.

Required Reserves for the subject property 1-unit ADU: Regardless of the length of time the borrower has owned the property, reserves of at least 2 months PITI are required.

Cash Out Refinances: If the subject property is a 1 unit with an ADU, rental income from the ADU cannot be used to qualify for a cash out refinance.

FHA Connection: To support these changes, additional fields within FHA Connection (FHAC) have been added:

- “Accessory Dwelling Unit”: this field defaults to “no” and must be updated to “yes” to indicate the property is a 1-unit with an ADU.
- “Amount of Total Income Derived from ADU.” This field must be updated to reflect the dollar amount of the ADU rental income that is included in Total Income.
- “Limited or No History of ADU Income.” Must be checked as applicable.

Rental Income from Other Real Estate Owned (1-unit with ADU)

- Documentation of rental income is the same as noted above
- Calculation of rental income is the same as noted above except the net rental income from the ADU is not limited to 30% of the total effective income.

Complete guidelines can be found in the Newrez Underwriting Guide, Chapter 21, Employment and Income, in the following sections:

- 21.5(a) Rental Income from the Subject Property
- 21.5(b) Rental Income from Other Real Estate Owned
- 21.5(c) Treatment of Income or Loss

Appraisal Characteristics of Property Improvements – ADU (Existing and New Construction)

- The ADU must be subordinate in size, location and appearance to the primary home and may or may not have separate metered utilities.
- ADU must comply with zoning requirements which may include legal non-conforming use.

One-Unit Single Family Dwelling with an ADU

When the highest and best use analysis determines property to be a single-family dwelling with an ADU, the appraiser must provide:

- Description of the ADU characteristics;
- Summarize the ADU's market acceptance;
- Report the Gross Living Area of the ADU separate from primary dwelling;
- State whether the ADU can be legally rented without restrictions; and
- Report the current ADU occupancy and relevant details of any known lease agreements

Market Rental Analysis:

The Appraiser may provide the ADU market rent only if:

- Highest and best use is determined to be a one-unit single family dwelling with an ADU;
- ADU is legally rentable without restrictions;
- The appraiser determines that a non-transient monthly market rent can be credibly developed.

The analysis of the rental data must include support for the ADU comparable rental selections, adjustments applied and the opinion of the ADU market rent. Appraiser must include the ADU opinion of market rent using the Fannie Mae-Form 1007 /Freddie Mac Form 1000 and include following supplement statement:

- *This form is completed to provide FHA an opinion of the market rent of the subject's legally rentable Accessory Dwelling Unit (ADU). Sufficient competitive market data exists to develop credible results.*

Comparable Rent schedule for ADU Market Rent Analysis

- A sufficient number of comparable rents must be included to produce a credible ADU market rent estimate,
- The comparables used to develop the ADU market rent *must not* include properties rented for hotel or transient purposes or for periods less than 30 days.
- At least one comparable sale must be included that is a single family dwelling with a rented ADU; if this is not available, the appraiser must supplement with the most appropriate rental available and summarize the reason for the selection and how the marketability of the ADU was determined

Complete guidelines can be found in the Newrez Underwriting Guide, Chapter 2J, Appraisal Requirements, in the following sections:

- 2J.7B Appraisal Forms
- 2J.8(h)(iv) Accessory Dwelling Unit.

FHA Mortgage Letter [2023-18](#)

Sales Comparison Approach for Manufactured Housing: The temporary exception previously announced in ML 2020-18 have been permanently extended as follows:

For a Manufactured Home certified based on the construction requirements of Fannie Mae's MH Advantage® or Freddie Mac's CHOICEHome® program, the Appraiser must include at least two comparable sales with similar certification, when available. If fewer than two comparable MH Advantage® or CHOICEHome® sales are available, the Appraiser must use the most appropriate site-built comparable sales available and must provide detailed justification to support the Appraiser's selection of comparable Properties and the adjustments made for dissimilarities to the subject Property.

The property must have Fannie Mae's MH Advantage Sticker or Freddie Mac's CHOICEHome Label affixed near the HUD data plate and the appraiser must include photos in the appraisal report.

Complete guidelines can be found in the Newrez Underwriting Guide, Chapter 2J, Appraisal Requirements, 2J.12 Manufactured Housing

Newrez Underwriting Guide Updates

FHA Updates

Chapter 2B Transaction Types

Modified requirements for sales contract for purchase transactions must not violate FHA requirements. In addition:

- All purchasers listed on the sales contract are borrowers; and
- Only borrowers sign the sales contract.

An addendum or modification may be used to remove or correct any provisions of the sales contract that do not conform to these requirements.

The family member of a purchaser, who is not a borrower, may be listed on the sales contract without modification or removal.

Complete guidelines can be found in the FHA Underwriting Guide, Chapter 2A, B, Transaction Types, 2B.1 Purchase Mortgage

Chapter 2G Assets

- Updated Inducements to purchase include below market rent, except for borrowers who meet the identity of interest exception for family members.

Complete guidelines can be found in the FHA Underwriting Guide Chapter 2G, Assets, 2G.3(b) Inducements to Purchase

Chapter 2I Employment and Income

- Identified requirements for Rental Income from Subject property include properties with an Accessory Dwelling Unit (ADU)
- Clarified depreciation includes business miles when shown on Schedule C and FHA will accept the depreciation to be added back to the gross income.
- Expanded the documents that may be used to verify the source of non-taxable income to include any of the following:
 - Individual income tax return; or
 - Equivalent documentation evidencing the income is nontaxable; or
 - Obtaining IRS tax transcripts that evidence that the income is nontaxable.

Complete guidelines can be found in the FHA Underwriting Guide Chapter 2I, Employment and Income, in the following sections:

- 2I.4(h), Analyzing the IRS 1040 Individual Income Tax Return
- 2I.5 (a) Rental Income from Subject Property
- 2I.6(o) Nontaxable Income

Chapter 2J Appraisal requirements

- For subject properties with an ADU, added link for Opinion of Market Rent Form 1007/1000 to be used to include opinion of market rent for properties with an ADU

Complete guidelines can be found in the FHA Underwriting Guide Chapter 2J, Appraisal requirements, 2J.7(b) Appraisal Forms

VA

Chapter 3I Employment and Income

Expanded the documents that may be used to verify the source of non-taxable income to include any of the following:

- Individual income tax return; or
- Equivalent documentation evidencing the income is nontaxable; or
- Obtaining IRS tax transcripts that evidence that the income is nontaxable.

Complete guidelines can be found in the VA Underwriting Guide, Chapter 3I, Employment and Income, 3I.6(m) Nontaxable Income

Prior Agency Announcements

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

- n/a
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Product profile Releases and Overlay Matrix Updates

Product profile Releases

- FHA Purchase
 - Eligible Property Types: added 1-unit with an ADU
 - Reserves: for 1-unit subject property with an ADU, 2 months PITI is required (TOTAL Accept, Refer and Manual Underwrite)
 - FHA Standard Refinance
 - Eligible Property Types: added 1 unit with an ADU
 - Overlay Matrix - n/a
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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

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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](#).