Seller Guide Update

SEL-2020-004: Multiple Topics

January 27, 2020

☒ Correspondent Lending
☒ Housing Finance Agency (HFA)

Table of Contents

The following topics are included in this update:

Summary

The following items have recently been updated in the U.S. Bank Correspondent Seller and HFA Division Lending Guides, specific to Loan Delivery, Underwriting and Credit Policy.

U.S. Bank Correspondent Seller and HFA Division Lending Guides

Unless otherwise notated within each section as Correspondent only policy or based on product availability such as Portfolio products available only in Correspondent, these updates are applicable to both our Correspondent and HFA lenders.

The respective sections of the U.S. Bank Correspondent Seller and HFA Division Lending Guides are included in each section.

This communication serves to announce changes and updates including an effective date. Always review the U.S. Bank Correspondent Seller and HFA Division Lending Guides for the most current policy. Guidelines are updated with the information in this communication and should be referred to instead of the communication for guidance.

Underwriting, Delivery, and Product Grids

For overall ease of use, we have enhanced our communications to now include underwriting and delivery method checkboxes to each section when applicable. You'll also find a new grid that outlines the applicable products.

Effective Date

Immediately unless otherwise noted within each section below.

VA Cash Out Updates Clarification

Underwriting/Delivery	
☒	Corr. Delegated
☒	Corr. Non-Delegated
☐	Corr. EZD
☒	Corr. Mandatory
☐	HFA Delegated
☐	HFA Non-Delegated
Products	
☐	Conv. (Freddie)
☐	Conv. (Fannie)
☐	Conv. (Portfolio)
☐	FHA
☒	VA
☐	Rural Development

In **SEL-2020-003**, we announced VA cash out updates effective immediately including the elimination of our recently announced overlay restriction of 80% LTV/CLTV/HCLTV. We also announced that we will now follow the Ginnie Mae cap of 90% LTV/CLTV/HCLTV with the exception of those items shown below and previously outlined.

We would like to also take this opportunity to clarify and provide additional guidance regarding the effective date, which included loans currently in the pipeline.

In order to provide lenders ample time to work through their respective pipeline of loans, non-delegated VA cash out loans originated to the previous guidelines, with an LTV exceeding 80%, must be registered by and submitted to U.S. Bank Underwriting Department **no later than February 18, 2020.**

Non Delegated Underwriting Only

As previously announced, we are restricting VA loans that are true cash-out or debt consolidation refinances to a maximum LTV of 80%, aligning with FHA and Conventional cash out definitions.

Non-Delegated Underwriting guidelines have been updated as follows:

- LTV/CLTV/HCLTV > 80.01-90% only allowed when loan proceeds are used for:
  - Payoff
    - existing first mortgage
    - Junior liens used in their entirety to acquire the subject property
  - Pay:
    - Closing costs and/or
    - Disbursement of cash to the borrower (or any other payee) exceeding the greater of 1% of the new refinance or $2,000

Reminder – Client Support

If you have a non-delegated VA cash out loan (one U.S. Bank will underwrite) with an LTV exceeding 80% that meets the above guidelines, you will need to contact the Client Support team for assistance in completing the registration/lock. Registrations and/or locks on loans approved using your VA underwriting approval will not be affected.

Credit Underwriting Updates

Underwriting/Delivery	
☒	Corr. Delegated
☒	Corr. Non-Delegated
☒	Corr. EZD
☒	Corr. Mandatory
☒	HFA Delegated
☒	HFA Non-Delegated
Products	
☒	Conv. (Freddie)
☒	Conv. (Fannie)
☒	Conv. (Portfolio)
☒	FHA
☒	VA
☒	Rural Development

Debt Counseling Prior to Application

U.S. Bank allows the practice of borrower counseling prior to application in which reduction of outstanding debt prior to applying for a mortgage may be an outcome.

- U.S. Bank allows the lender to pull a credit report prior to application and to discuss with the borrower how to improve their credit profile.

Credit Reports at the time of Application

- Once an application is taken and a new credit report obtained, that report will be used for 1003 purposes to qualify the borrower.
- Any change to a credit line will be reviewed with a credit supplement or other acceptable documentation to show the most current credit line information. A credit supplement is sufficient to show a debt has been paid off or closed rather than pulling a full new credit report. Pulling a new credit report is unacceptable.
- U.S. Bank allows additional credit reports or a rapid rescore to be pulled only in those cases of documented erroneous, disputed or inaccurate information or if the credit report obtained at application has expired.
- Additional credit reports or a rapid rescore are not allowed for purposes of trying to obtain higher credit scores. This section is being updated for clarifying purposes only; there is no change to our current policy.
- All credit reports are required to be in the loan record.

Credit reports should not be re-ordered when the existing credit report is not more than 120 calendar days from application and is not expected to expire prior to closing as this creates additional operational and compliance risks (i.e. permission to re-pull credit, associated fees, pricing adjustments, resubmission to underwriting, etc.).

To minimize these operational and compliance risks, we recommend that any credit report that is expected to expire before the loan closes or close of escrow should not be re-ordered more than 30 days before the closing date unless there is another business justification (i.e. builder construction loans).

Guide Update: 711.7 FHA – Credit/Debt Underwriting, 712.9 VA – Credit/Debt Underwriting, 713.9 Agency – Credit/Debt Underwriting, 715.7 RD – Credit/Debt Underwriting

Income Analysis Worksheet Changes

Underwriting/Delivery	
☐	Corr. Delegated
☒	Corr. Non-Delegated
☐	Corr. EZD
☐	Corr. Mandatory
☐	HFA Delegated
☒	HFA Non-Delegated
Products	
☒	Conv. (Freddie)
☒	Conv. (Fannie)
☒	Conv. (Portfolio)
☐	FHA
☐	VA
☐	Rural Development

Summary

The following changes have been made to the Income Analysis Worksheet effective immediately.

Asset Dissipation

As announced in **SEL-2019-067**, the use of Asset Dissipation (both retirement and non-retirement) is no longer allowed for Agency and Portfolio loans. These sections have been removed from the worksheet.

Alimony

For Portfolio loans, since there are tax consequences of alimony payments, the underwriter should treat the monthly/recurring alimony obligation as a reduction from the borrower's gross income when calculating qualifying ratios, rather than treating it as a monthly/recurring obligation, if payments are made under a divorce or separation agreement executed on or before December 31, 2018. When an agreement is executed after this date alimony is treated as a recurring obligation.

Income Variation

Alerts have been updated to show a 10% variance (currently 20%) in base, overtime, bonus, commission and other income.

Guide Update: Income Analysis Worksheet, Income Analysis Manual

Questions

Correspondent: Please contact your Account Executive or the Client Support Area at 800.200.5881, option 1.

HFA: Please contact the Housing Finance Agency Hotline at 800.562.5165, option 1 for the HFA Customer Care Team.