Seller Guide Update

SEL-2020-053: Temp. VA Forbearance Requirements, Updates to Portfolio and SBA Loans — July 10, 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 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.

Keeping you informed

U.S. Bank continues to closely monitor the ever-changing landscape of our business as a result of the impacts of the coronavirus (COVID-19).

For information about our ongoing work to support our lending partners and customers, we invite you to visit our Correspondent/HFA COVID-19 Resource Page within AllRegs for regular updates and the most current information. We know you have many questions and we are diligently working to address each of them. We have developed a list of COVID-19 Frequently Asked Questions and will continue to update this document on a regular basis to keep you informed of process and policy updates.

For additional information about our ongoing work to support customers, we invite you to visit U.S. Bank's COVID-19 support site for regular updates and the most current information.

Temporary VA Eligibility Requirements for Borrowers with Mortgages under CARES Act COVID-19 Forbearance Status

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

Effective Date: Immediately until further notice.

VA has published Circular 26-20-25 announcing guidance for Veterans in a CARES Act forbearance. U.S. Bank Home Mortgage will follow the temporary VA requirements as indicated below.

VA Purchase and Cash Out Refinance

Veterans who are in COVID-19 forbearance on any loan can still be eligible for a VA purchase and a VA cash out refinance if the following is met:

- Borrowers must provide the reasons for the delinquency / forbearance and information on how the delinquency/forbearance was cured and corrected.
- Veterans do not have to show they are out of forbearance nor have a period of on time payments to be eligible for a new loan, but they must be current on all payments.
- Manual Underwriting only must fully credit qualify and meet all VA and U.S. Bank credit requirements.

Also non-mortgage deferred payments (auto, student loan, etc.) must be considered in the monthly obligation if the debt remains active after closing the new loan.

IRRRL

Veterans who are in COVID-19 forbearance on loan being refinanced can still be eligible for a VA IRRRL if the following is met:

Current loan being refinanced is in COVID-19 forbearance and no late payments >30 days

- USB-USB currently serviced loans only
- Third Party Delegated and Non-Delegated must be fully credit qualifying
- Borrowers must provide information that they are no longer experiencing hardship
- All existing U.S. Bank IRRRL requirements to be met

Current loan being refinanced is in COVID-19 forbearance and has late payments >30 days

- Borrowers must provide the reasons for the delinquency / forbearance and information on how the delinquency/forbearance was cured and corrected.
- Borrower must provide information that they are no longer experiencing hardship
- Borrower fully credit qualifies under VA and U.S. Bank requirements
- VA is temporarily waiving requirement that delinquent loans be sent to VA for Prior Approval. U.S. Bank Home Mortgage as Approved Lender may close the loan without sending to VA for approval.

Maximum Loan Amount for COVID-19 forbearance

- Include past due mortgage payments
- Late charges consistent with the note
- Allowable closing costs, discounts, and VA funding fee (if required)

Seasoning

- If a loan met seasoning requirements prior to the forbearance the VA seasoning requirement remains satisfied.
- If a borrower was partially complete with seasoning before entering forbearance, that borrower will need to begin the seasoning requirements again, until they have made six consecutive timely monthly payments post-forbearance.
- The date of the closing of the refinance loan is 210 calendar days or more after the first payment due date of the loan being refinanced.

Fee Recoupment and Net Tangible Benefit standards must still be met for all IRRRLs.

COVID-19 Related Forbearance Defined

COVID-19 related forbearance is defined as a forbearance request covered under the CARES act starting on March 27, 2020 until the earlier of the termination date of the national emergency concerning the coronavirus or December 31, 2020.

Update to Portfolio Underwriting Guidelines

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☐ Conv. (Fannie)
☒ Conv. (Portfolio)
☐ FHA
☐ VA
☐ Rural Development

Effective Date: Immediately

The following updates have been made to our U.S. Bank Portfolio Underwriting Guidelines. For ease of finding these changes, the updated sections are listed below, and updated content is in green.

Delinquent Credit/Other Significant or Derogatory Credit Information

Documentation of the satisfaction of these liabilities, along with verification that there were funds sufficient to satisfy these obligations, must be included in the underwriting file.

Explanation would be required for any payment that is 1x60 or later or 2x30 in the last 24 months at time of underwriting.

Mortgage

The borrower's payment history must be reviewed to determine delinquency, severity and recency of the delinquency. Borrower's with excessive mortgage or rent payment delinquencies are not eligible. Excessive delinquency is defined as any mortgage tradeline or rent history that is not current in the most recent three months or has more than a 1x30 reporting within the 12- month period prior to application.

Collection Accounts

The following may be considered by an Underwriter based on the overall strength of the underwriting file using the following guidance:

All collection accounts (including medical collections) may not have to be paid off at or prior to closing if the total balance of all accounts combined is $1,000 or less. No minimum monthly payment has to be included in monthly debt unless one has been set up and the borrower has been paying a set amount.

Collection accounts that exceed the above limits may not have to be paid off at or prior to closing, provided all of the following are documented:

1. A strong credit profile
2. Meaningful financial reserves
3. Evidence that the accounts pose no threat to the first mortgage lien.

Other Significant or Derogatory Credit

Non Mortgage Credit obligations exhibiting past due amounts (>30 days) of $1000 or more must be brought current prior to closing.

Underwriters may exclude the requirement to bring significant or derogatory accounts current when the aggregate past due amounts on reported credit accounts is less than $1,000. Appropriate comments must address the underwriter's action.

Before waiving the payment requirement, the following must be considered:

- The borrower's FICO, down payment/equity, number of trade lines, number of times past due and number of days past due should be considered before waiving payment requirement.
- Borrower's verified assets must be sufficient to cover the delinquent sums in addition to the required PITIA reserves per program criteria if the underwriter elects to waive bringing delinquent accounts current.

Other Items that Could Affect Lien Position

U.S. Bank requires any delinquent credit that have the potential to affect our lien position or diminish the borrower's equity to be paid off at or prior to closing, this includes taxes, judgments, mechanics' liens, and liens.

Update to Portfolio Underwriting Guidelines, continued

Liquidation of Non Depository Assets Clarification

As previously communicated, evidence of liquidation of any non-depository accounts (stocks, bonds, retirement funds etc.) used for down payment, closing costs and prepaids/escrows must be documented. The Underwriting Guidelines will be updated to reflect this requirement.

Second Home Maximum Number of Properties Owned

When the subject property is a second home, the borrower(s) may not own more than six residential properties (with or without financing) including the subject property.

Guide Updates: 714.1.5.1 Portfolio – Credit, 714.1.6 Portfolio - Assets/Funds to Close, 714.1.9 Portfolio - Properties

Updated - SBA Payroll Protection Loans

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We are issuing this clarification that the underwriter must consider a Small Business Administration Payroll Protection Loan (SBA-PPP) when analyzing the business's financial strength and the borrower's earnings to determine the stability of the net income used by the self-employed borrower to repay their mortgage.

Self-Employed Income and Debt Analysis

When analyzing the financial strength, the Underwriter would need to account for business obligations which may have a negative impact to the net earnings of the business. When underwriting has knowledge that a business received a SBA-PPP, this needs to be accounted for during the analysis of the business's earnings. This obligation could have a negative impact to the net income of the business. Underwriting will account for this obligation during the analysis of the business's earnings by:

1. Reviewing the current P&L to determine if the new SBA-PPP Loan payment was accounted for.
2. Reduce the business net earnings if the obligation is not clearly accounted for in the P&L.
    a. For SBA-PPP loans with a term of less than five years, underwriting should re-calculate the SBA-PPP loan based on a 5 year maturity term with an amortization term of 54 months and use the new payment when reviewing the net earnings.

       Note: The CARES Act was amended on June 5, 2020 to change the maturity term from 2 years to 5 years.
3. If documentation is provided that the SBA-PPP was forgiven, partially forgiven, returned or paid in full, this would need to be addressed in the income calculation and noted in the file.

Caution must be used when evaluating any income relied upon in determining the borrower(s) ability to repay. Underwriting is responsible for justifying that the income is stable, effective and likely to continue. Additional documentation maybe needed to support this.

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.