



# Seller Guide Update



SEL-2023-073: Multiple Topics

December 22, 2023

- Correspondent Lending
- Housing Finance Agency (HFA)

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## Summary



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

**U.S. Bank Correspondent Seller and HFA 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 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 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 include underwriting and delivery method checkboxes to each section when applicable. You'll also find a grid that outlines the applicable products.

## Effective Date

Immediately unless otherwise noted within each section below.



## Agency Underwriting Changes

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

**Effective Date:** For new locks and/or relocks, and new reservations on/after January 1, 2024.

U.S. Bank is announcing the recent updates to agency guidelines impacting the following:

- Rental Income requirements
- Self-employed borrowers
- Restricting non-occupying borrowers on cash-out refinance mortgages
- Updates to 10-day pre-closing verification (PCV)

### Freddie Mac - Updates to Rental Income Requirements

Freddie Mac has updated their rental income requirements, including, but not limited to:

- Removing the requirement that a lease must have a minimum original term of one year.
- Specifying that for newly executed leases, the first rental payment due date must be no later than the first payment due date of the mortgage.
- Updating documentation requirements for receipt of two months' rental income to require evidence that the payments were cashed or deposited into the borrower's depository account at a financial institution or transferred into a third-party money transfer application account owned by the borrower.
- Permitting documentation of receipt of the security deposit plus first month's rental payment, in lieu of receipt of two months' rental payments
- Removing the appraisal requirement that at least one comparable sale must have an ADU that is rented, when rental income generated from an ADU on a subject 1-unit Primary Residence is used to qualify the borrower.
- Reformatting the documentation requirements table for rental income generated from an ADU on subject 1-unit primary residence "no cash-out" refinance transactions.

**Reference:** Refer to [5306.3: Rental income generated from an ADU on a subject 1-unit Primary Residence](#) and [5306.4: Rental income from a 2- to 4-unit Primary Residence, subject 1- to 4-unit Investment Property and non-subject Investment Property](#) for additional guidance.

### Fannie Mae - Rental Income

Fannie Mae has updated their rental income policies addressing questions received from lenders. These changes provide additional details for documenting rental income used for qualifying and reconciles differences in the way income earned from subject/non-subject properties is determined.

They have aligned the use of rental income that can be considered for qualifying purposes for non-subject rental properties that have become rental properties within the last 12-months (investment properties or two- to four-unit primary residences), with that of rental income earned from the subject property. This update will require the borrower to have a primary housing expense and at least a one-year history of property management experience to use the full amount of rental income towards qualifying, otherwise the amount may be limited.

Next, they clarified the treatment of rental income when multiple rental properties are owned to ensure our Guide aligns with Desktop Underwriter® (DU®) functionality. Meaning, when rental income is considered from multiple rental properties, income/loss is calculated on a per property basis but aggregated for non-subject properties so the total amount of either income or loss across all rental properties is considered in the calculation of the borrower's total debt-to income ratio.

Additionally, they amended documentation requirements for lease agreements. Form 1007 or Form 1025 must support the income reflected on the lease agreement or the lease agreement must provide evidence that the terms of the lease have gone into effect with proof of receipt for at least two-month's rental payments.

Finally, they provided supplemental scenarios for documenting partial rental income when the rental property was not in service the previous tax year or was only in service for a portion of the previous tax year. This information should assist underwriters with their analysis of using alternative rental income calculations or determining when the use of lease agreements is more appropriate.

**Reference:** Refer to [B3-3.1-08, Rental Income](#) for additional guidance.

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## **Fannie Mae - Self-Employed Borrowers**

### ***Length of self-employment***

Current underwriting requirements emphasize the continuity of a borrower's stable income to demonstrate the likelihood that a consistent level of income will continue to be received for borrowers.

For borrowers using self-employment income to qualify, we require lenders to obtain a two-year history of the borrower's prior earnings as a means of demonstrating the likelihood that the income will continue to be received but allows a shorter history in certain circumstances.

Fannie Mae has updated their Selling Guide to clarify the requirements for use of self-employment income when the borrower has less than a two-year history of self-employment.

These clarifications include a requirement for the signed personal and business federal income tax returns to reflect a minimum of 12-months of self-employment income from the current business.

### ***Tax return requirements for self-employed borrowers***

Fannie Mae currently requires that self-employment income be documented with the most recent two years of personal and business tax returns. When a loan is underwritten through DU, DU may determine that only one year of tax returns is required to document self-employed income.

To provide more transparency for this documentation policy, Fannie Mae has updated the policy to allow one year of personal and business tax returns when:

- All self-employed businesses have been in existence for five years, and
- The borrower has had a 25% or greater ownership interest for the last five consecutive years.

This policy applies to both DU and manually underwritten loans.

## **Freddie Mac - Restricting Non-Occupying Borrowers on Cash-Out Refinance Mortgages**

Freddie Mac is updating their guide to require that all borrowers must occupy the mortgaged premises when the mortgage is a cash-out refinance mortgage secured by a primary residence.

Loan Product Advisor will be updated at a future date to reflect this requirement.

### **Updates to 10-day pre-closing verification (PCV)**

Freddie Mac has expanded the 10-day pre-closing verification (PCV) types to include a year-to-date (YTD) paystub from the pay period immediately preceding the Note date, with the "paid through" date no more than 15-Business Days before the Note date.

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## Reminder: High Risk Appraisal Review Requirements

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

In **SEL-2023-067** published on November 20, 2023, When a Conventional Agency, FHA or USDA loan is registered in Lender Portal, an evaluation of loan criteria is performed to determine if additional information is required. Loans are determined high risk through our enhanced collateral protection review, which utilizes sophisticated fraud detection tools to identify high risk loans that should receive additional review prior to purchase.

Based on this evaluation which includes Fannie Mae's Collateral Underwriter® (CU®) appraisal valuation tool for Conventional loans, if a loan is determined to be high risk (see notification process in SEL-2023-067), U.S. Bank will soon require the following collateral documentation (full appraisal and/or Submission Summary Report (SSR)) as applicable per the products below) for Conventional Agency, FHA or USDA loans registered on and after January 1, 2024:

### FHA/USDA

Product	High Risk Collateral Review Requirement
FHA	<ul style="list-style-type: none"> <li>Full appraisal will be required.</li> </ul>
USDA	<ul style="list-style-type: none"> <li>Full appraisal will be required.</li> </ul>

### Conventional Agency

Product	High Risk Collateral Review Requirement
Conventional Agency	<p>Full appraisal/Fannie Mae Appraisal Submission Summary Report (SSR) will be required:</p> <ul style="list-style-type: none"> <li><b>Loans with Fannie Mae CU scores of 3.5 or lower</b>, will <u>not</u> require additional collateral screening.</li> <li><b>Loans with Fannie Mae CU scores of 3.6 or greater (including those with no score)</b> <u>will</u> require additional collateral screening.</li> </ul> <p><b>Best Practices – First-Generation Appraisal</b></p> <p>We strongly encourage lenders to upload the SSR and first-generation appraisal as separate documents. Refer to the <b>Appraisal Review Best Practices</b> document which provides additional information regarding verifying first-generation status.</p>

For loans registered prior to January 1, 2024, [appraisals must be submitted to U.S. Bank prior to December 21, 2023](#). If the appraisal is not received by December 21<sup>st</sup>, it will follow the new process.

Please refer to **SEL-2023-067** for complete details including High Risk Review Email Notification (via Lender Portal), and High Risk Review Loan Condition impacts.

## 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.