



Seller Guide Update



SEL-2024-007: Multiple Topics

February 9, 2024

- Correspondent Lending
- Housing Finance Agency (HFA)

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Summary



U.S. Bank Correspondent Seller and HFA Lending Guides

The items listed above have recently been updated in the Correspondent Seller and HFA Lending Guides, specific to Loan Delivery, Underwriting and Credit Policy.

- 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 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 Division Lending Guides for the most current policy.
- Guidelines are updated with the information in this communication and should always be utilized as the source of truth.
- As a reminder, U.S. Bank publishes a monthly summary of all Correspondent and HFA communications published for the previous month. This summary is intended to assist you in making sure your organization received and read all U.S. Bank communications published during the prior month. All documents are published in our Correspondent and HFA Communications libraries in Section 1000 of AllRegs:
 - 1010: Bulletins
 - 1011: Seller Guide Updates
 - 1012: Best Practices
 - 1013: Pricing Flashes

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 grids that outline the applicable products.

Effective Date

Immediately unless otherwise noted within each section.



Restricted Stock Unit 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)
X	Conv. (Portfolio)
X	FHA
X	VA
	Rural Development

Effective Date: Effective Immediately

U.S. Bank is making the following changes to our Restricted Stock Units policy to align with the recently announced Fannie Mae changes. U.S. Bank overlays are captured in orange for ease of review.

Definition

Restricted stock units (RSU) are granted by an employer to its employees as a form of compensation. They can be awarded as either stock or an equivalent cash value of the number of shares awarded and usually vest over a certain number of years. RSUs represent shares of a company's stock and have no value until they are vested. After they vest, the employee may sell the shares at the current price or hold the stock for future sale. If the recipient does not meet the requirements the company set forth prior to the end of the vesting period, the units are typically forfeited to the company.

To be used as qualifying income, the RSU must have vested and been distributed to the borrower without restrictions (e.g., not subject to restriction of the borrower's rights to the RSU under the compensation plan once vested).

Eligibility Requirements

- History of Receipt
 - Performance-Based - Two years (24 months), consecutive
 - Time-Based - **Two years (24 months)**
- RSU must have been received from the same employer during the required history of receipt.

Documentation Requirements - Restricted stock units may be used as income to qualify the borrower if the income meets the stable income requirements listed below and has a likelihood of continuance from the same employer, based on the vesting/payout schedule. The following documentation is required for use of RSU income:

- Employer must be a publicly traded entity; cannot be a privately held company.
- **Must be listed on the NYSE or NASDAQ major U.S. Stock exchanges. Foreign exchanges will be excluded.**
- Current Vesting Schedule of distribution of shares/units reflecting past and future continuance for the next 3 years.
- Brokerage or bank statement showing receipt of previous year(s) distribution of RSU and, at a minimum, the number of vested shares or cash equivalent;
- the borrower's IRS W-2 forms covering the most recent two-year period.
- Evidence payout of RSU with 2 years past year-end pay stubs or WVOE outline income received from vested shares.
- Documentation verifying the vesting provisions (e.g., time-based or performance-based) and vesting restrictions. Examples include the RSU and incentive plan.

Income Calculation - Income will be calculated as follows:

- Calculate average of the most recent two years vested historical RSU Income.
- Calculate the projected RSU income based on shares to be vested in the current year multiplied by the stock price at the end of day on the application date.
- **Compare the historic income to the projected income.**
 - **If the projected income declines less than 10%, the historical RSU income will be used for qualifying income.**
 - **If the projected incomes declines 10% or more, the projected income using the 52-week low stock price (back from the application date will be for qualifying income.**

Note: For Portfolio, RSU follows the variable income policy and must meet the variance requirements outlined in the Employment, Income and Debt Policy.

Restricted Stock Unit Changes, continued

Examples

Example 1:

2022 historic RSU income per year end paystub: \$270,000
 2021 historic RSU income per year end paystub: \$200,000
 Average of 2022/2021= $(\$270,000 + \$200,000) / 2 = \$235,000$

2023 share to vest per vesting schedule: 1000
 Stock price on date of the application: \$187/share
 Projected income in 2023 based on current stock price = 1000 shares x \$187/share = \$187,000
 52-week low stock price: \$175/share
 Projected income in 2023 based on 52-week low stock price = 1000 shares x \$175/share = \$175,000

Variance: 20.4% decline when compared to the historic levels

Qualifying amount of RSU income is \$175,000 (based on projected shares (X) 52-week low stock price)

Example 2:

2022 historic RSU income per year end paystub: \$270,000
 2021 historic RSU income per year end paystub: \$200,000
 Average of 2022/2021= $(\$270,000 + \$200,000) / 2 = \$235,000$

2023 share to vest per vesting schedule: 1000
 Stock price on date of the application: \$287/share
 Projected income in 2023 based on current stock price = 1000 shares x \$287/share = \$287,000

Variance: (+) positive increase when compared to historic levels

Qualifying amount of RSU income is \$235,000 (based on historical average)

Guide Updates: 711.4 FHA – Effective Income, 712.6 VA – Effective Income, 713.7 Agency – Effective Income, 714.2.2.3 Portfolio - Non-Employment Related Borrower Income, Agency Overlay Matrix, Government Overlay Matrix.

Disaster Area Declarations

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)
X	Conv. (Portfolio)
X	FHA
X	VA
X	Rural Development

The following counties have been declared as Presidential Disaster Areas with Individual Assistance.

- Agency, Portfolio, VA, and RD loans with subject properties located in counties listed below that have not CLOSED by the Disaster Declaration Date must follow the requirements listed in AllRegs.
- FHA loans with subject properties located in the counties listed below that have not been ENDORSED as of the Disaster Declaration Date must follow the FHA requirements listed in AllRegs.

Declaration Date	State	County
January 30, 2024	Maine	Androscoggin, Franklin, Kennebec, Oxford, Somerset
January 30, 2024	West Virginia	Boone, Calhoun, Clay, Harrison, Kanawha

Guide Section: 711.20 FHA – Natural Disaster Procedures, 712.21 VA - Natural Disaster Procedures, 713.20 - Natural Disaster Procedures, 714.1.10 - Natural Disaster Procedures, 715.20 RD - Natural Disaster Procedures

Reminder: Loan Collateral Advisor Warning Messages and Unacceptable Appraisal Practice Policy

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

As a reminder from **U.S. Bank's SEL-2023-050**, and for additional awareness, on June 29, 2023, Freddie Mac [published](#) that Loan Collateral Advisor® was adding new feedback messages that alert users when subjective and/or potentially biased words or phrases are included in appraisal reports submitted to the Uniform Collateral Data Portal® (UCDP®).

These messages are intended to help identify potential issues and to assist in compliance with Freddie Mac *Single-Family Seller/Servicer Guide* requirements (Guide [Section 5603.4](#) Unacceptable appraisal practices). This followed their original announcement previously shared in [April](#).

As part of their prior announcement, they also noted that, for certain words and phrases, the Warning message would transition to a Fatal message in Q4. The date for this transition was set for October 26, 2023.

Recent Update

On [January 26, 2024](#), [Freddie Mac advised](#) that the new Loan Collateral Advisor® fatal severity feedback message (FRE 4611) related to Single-Family Seller/Servicer Guide (Guide) [Section 5603.4](#), Unacceptable appraisal practices, [is now live](#). The message alerts users when an appraisal report submitted to the Uniform Collateral Data Portal® (UCDP®) contains subjective and/or potentially biased words and phrases.

Warning messages **do not** currently prevent successful appraisal submission to UCDP or the delivery of the loan to Freddie Mac; however, beginning in October when the Warning messages transitioned to Fatal, the Fatal message prevent submission of the appraisal to UCDP and delivery of the loan to Freddie Mac.

Lenders are encouraged to take proactive steps such as enhancing procedures and training to ensure unsuccessful appraisal submissions are addressed and minimize delays in origination turnaround times. NOTE: Messages will show in Loan Collateral Advisor and on the Submission Summary Report (SSR) shared in UCDP.

Additional Resources

- [Q&A: Focus on the Right Words and Phrases for More Objective Appraisal Reports](#)
- [New Feedback Messages](#)
- [Loan Collateral Advisor Feedback Messages List](#)
- [UCDP Feedback Messages List](#)
- [Guide Section 5603.4](#)
- [Loan Collateral Advisor](#)
- [Collateral Evaluation and Appraisal Resources Page](#)

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.