



# Seller Guide Update



SEL-2024-009: Multiple Topics

February 23, 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.



## Removal and Modification of Select Agency and Government Overlays

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

**Effective Date:** Effective with locks and relocks on and after February 23, 2024.

As part of our ongoing review of existing overlays, we are pleased to announce that our Agency and Government products will be enhanced by removing and modifying select overlays as outlined below.

### Clarifications

In situations where the investor has been silent on a topic, in the past, we have provided additional clarification and indicated these items as overlays. We will remove these items as an overlay and have created a clarification section on the matrix. We will also indicate with the color **brown** within the U.S. Bank Underwriting guidelines in AllRegs that these are clarifications only and no change to guidelines.

- **FHA, VA – Self Employed Business Verification** - At time of underwriting the file must contain verification, no more than 30-calendar days prior to note date, of the existence of the business for at least two years from a third-party source such as a regulatory agency, phone directory, the Internet, or applicable licensing bureau.
- **VA – Large Deposit Defined**
- **VA, RD – Anti-Flipping Policy** - If the Seller must have taken title to the subject property more than 90 days prior to the contract date on the sale of the property to the applicant. Resales occurring between 91-180 days with a resale price increase of 100% or more over the price the seller acquired the property will require a second appraisal. This does not have to be a VA, FHA, or USDA appraisal.
- **Agency – Anti-Flipping Policy**
  - If the seller acquired the property 90- or fewer days prior to the date of the sales contract and the current sales price exceeds 10% of the seller's acquisition, a second review of the appraisal must be completed by U.S. Bank Home Mortgage Collateral Review Department (refer to selling guide for additional information).
  - Properties acquired by the seller over 90-days, but less than 180-days prior to the date of the sales contract (and the current sales price exceeds 20% of the seller's acquisition) requires a second review of the appraisal completed by U.S. Bank Home Mortgage Collateral Review Department (refer to selling guide for additional information).
- **Agency (Fannie Mae Only) – Eligible Property Requirements** - To be considered an eligible property, regardless of occupancy, the property must be suitable for year-round occupancy.
- **Non-Delegated Correspondent and HFA Loans**
  - Agency - Borrowers who were out of the work force due to unemployment for a period of 6-months or longer must be on the current job 2-months or longer to utilize their income for qualifying.
  - VA - Deed-in-lieu or short sale require a two-year period from transfer of title to new application.

**Guide Updates:** 711.04 FHA – Effective Income, 712.06 VA – Effective Income, 712.08 VA – Funds for Closing, 712.15 VA – Anti-Flipping Policy, 713.15 Agency – Anti-Flipping Policy, 713.17 Agency – Eligible Properties, 715.14 RD – Anti-Flipping Policy, Agency Overlay Matrices, Government Overlay Matrices

## 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:** Effective Immediately unless otherwise noted.

U.S. Bank is announcing the recent updates to Agency Guidelines impacting the following:

- Property Insurance Requirements
- Nontraditional Credit References
- Business Income
- Trust Income
- Asset Documentation

**Property Insurance Requirements:** For applications taken on or after June 1, 2024, Freddie Mac and Fannie Mae, at the direction of FHFA and in alignment with each other, have updated their requirements for adequate insurance to promote sustainable homeownership and ensure all properties are sufficiently insured. Please review the guidance provided by the agencies to ensure that the requirements are understood and followed for Single Family Homes and Condominiums.

- Fannie Mae Chapter B7-3, [Property](#) and [Flood Insurance](#)
- Freddie Mac Sections [4703.2](#) and [4703.3](#)

**Nontraditional Credit References:** Fannie Mae has expanded their list of nontraditional credit references to account for various examples of housing payments. The following are examples of acceptable housing payments:

- Rent: fees paid to a landlord or property management company;
- Privately held mortgage loan: housing payments not reported to the credit bureaus, such as contract for deed payments and other similar arrangements, provided the payments are related to the borrower's residence; and
- Real estate taxes: payments made on a principal residence, regardless of payment frequency (for homes owned free and clear).

These changes provide clarity for the additional types of credit references that can be used to develop a borrower's nontraditional credit history.

**Business Income:** Fannie Mae has clarified several income calculation and documentation requirements for borrowers using business income to qualify. These updates apply to self-employed borrowers and borrowers with less than a 25% interest in a business.

- As a reminder, U.S. Bank requires the business must have at least a .5 Quick Ratio and at least a 1.0 Current Ratio to be considered acceptable income.
- The Schedule K-1 alone cannot be used to support business liquidity in the absence of distributions as it does not provide sufficient information for this purpose.

Fannie Mae has also clarified additional policies applicable only to borrowers with less than a 25% interest in a business.

- If business tax returns are provided, the lender is not required to analyze the viability of the business. The lender may focus solely on the borrower's proportionate share of business income as reflected on the Schedule K-1.
- Income reported on Schedule K-1 can only be considered for qualifying if the lender verifies that the income was actually distributed to the borrower consistent with the level of business income being used to qualify, or the business has adequate liquidity to support the withdrawal of earnings.

**Trust Income:** Freddie Mac has updated their trust income requirements as follows:

- Must document receipt of income for the most recent one-year.
- Specified that when the Borrower is the trustee, a letter from a trustee is not acceptable documentation.

As a result, we are aligning our trust income requirements with both Freddie Mac and Fannie Mae requirements.

**Asset Documentation:** Freddie Mac has updated their requirements for direct account verifications. With this update, verifications that are generated electronically by a financial institution are not required to contain the title, signature and phone number of a representative of the financial institution, which more closely aligns with the requirements for third-party asset verifications.

**Guide Update:** 713.7 Agency – Effective Income, 811.6 Condominium - Insurance Requirements for Conventional Loans, 850.6 Co-op - Project Insurance Requirement

**Reminder:  
Freddie Mac  
Condo “Not  
Eligible” Status**

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

**Effective Date:** For loans delivered on or after February 26, 2024

As was originally published in **SEL-2024-003** on January 12<sup>th</sup>, Freddie Mac is enhancing Condo Project Advisor Project Assessment Request (PAR) to include a new PAR finding status, Not Eligible, to indicate that a project does not meet certain project review and general eligibility requirements.

**Condo Project Advisor Review**

A Mortgage secured by a Condominium Unit in a Condominium Project that receives a Not Eligible status is ineligible for sale to Freddie Mac and will be identified in Condo Project Advisor (CPA), Loan Product Advisor (LPA), Loan Quality Advisor (LQA) and Loan Selling Advisor (LSA). Freddie Mac does not provide a report of projects listed as not eligible and will be determined through a loan level in CPA, LPA, LQA, and LSA.

U.S. Bank’s Project Approval Department (PAD) will pull from CPA on each project review to determine if a project has a not eligible status. Any project that has received a not eligible status can be appealed to Freddie Mac through PAD or the Freddie Mac Condominium Project Management. PAD will require a full review to determine if the project now meets eligibility requirements prior to submitting the appeal.

**U.S. Bank Communications**

Lenders are encouraged to also review our previously published U.S Bank communications for additional details including:

- SEL-2024-003 (1/12/24) and SEL-2024-006 (2/2/24)

**Guide Update:** 811.15 Condo Project Advisor Project Assessment Request by Freddie Mac

**End of Cycle  
Coming Soon -  
Government  
ARM Change  
Dates**

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

As a reminder, we are quickly approaching the end of a cycle to accept specific change dates for FHA/VA ARM loans as follows:

- **Last Day to Purchase** – February 17, 2024, was the last day to purchase FHA/VA ARM loans with an January 1, 2029 change date.
- **Loans Purchased and Change Date Requirements** - Loans purchased after February 17, 2024 must have a July 1, 2029, change date.

This applies to all loans that are scheduled to be delivered or have been delivered.

**Guide Update:** 1300: ARM Documents > Disclosures > [FHA/VA ARM Change Dates](#)

## 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
February 15, 2024	Washington	Spokane
February 19, 2024	California	San Diego

**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

## 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.