



# UHM Production Bulletin

April, 2016

Bulletin U16-0004  
Issued 4/21/16

## TOPICS IMPACTED IN THIS BULLETIN

FNMA and FHLMC Products	✓	FHA/VA	✓
Mortgage Insurance	✓	USDA	✓
Other	✓	Underwriting Guidelines	✓

### FHA:

#### FHA Student Loan Guidance

On April 14<sup>th</sup>, the Federal Housing Administration published [Mortgagee Letter 2016-08](#), Student Loans, including revised guidance for mortgagees when calculating student loan obligations for use in a Borrower's debt-to-income ratio calculation. FHA believes that its approach provides the appropriate balance between expanding access to credit and ensuring that the Borrower is able to maintain successful, long-term homeownership.

Consistent with industry practice, the revised guidance allows the same calculation criteria to be applied regardless of the student loan payment plan type (such as income-based payment plans) or deferral status, and also includes:

A 50% reduction in the percentage used to calculate monthly student loan obligations (now 1%) or the use of the actual documented payment when the payment fully amortizes the loan over its term. This may result in increased purchasing ability for some borrowers, while ensuring borrowers have the long-term ability to meet debt obligations.

The separation of student loan policies from other deferred obligations and installment loans including future incorporation into the [Single Family Housing Policy Handbook 4000.1](#). This separation provides greater clarity for mortgagees on the unique treatment of student loan payment calculations versus the calculations required for other deferred obligations.

The revised guidance in Mortgagee Letter 2016-08 applies to all Title II forward mortgage programs with the exception of non-credit qualifying Streamline Refinance mortgages. Mortgagees may begin using the guidance in Mortgagee Letter 2016-08 immediately.

In light of this change, UHM will modify the corporate Student Loan matrix and will distribute for use by April 21, 2016.

#### FHA Manual Downgrade due to Credit History, Qualifying Credit Score or Qualifying Ratio

In February, 2016, FHA updated new requirements for Accept Risk Classifications which require a downgrade to Manual Underwriting through Total Scorecard. The scenarios requiring a downgrade include:

- The mortgage file contains information or documentation that cannot be entered into or evaluated



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by TOTAL Mortgage Scorecard;

- Additional information, not considered in the AUS recommendation affects the overall insurability of the Mortgage;
- The Borrower has \$1,000 or more collectively in Disputed Derogatory Credit Accounts;
- The date of the Borrower's bankruptcy discharge as reflected on bankruptcy documents is within two years from the date of case number assignment;
- The case number assignment date is within three years of the date of the transfer of title through a Pre-Foreclosure Sale (Short Sale);
- The case number assignment date is within three years of the date of the transfer of title through a foreclosure sale;
- The case number assignment date is within three years of the date of the transfer of title through a Deed-in-Lieu (DIL) of foreclosure;
- The Mortgage Payment history requires a downgrade as defined in Housing Obligations/Mortgage Payment History;
- The Borrower has undisclosed mortgage debt; or
- Business income shows a greater than 20 percent decline over the analysis period

In response to this announcement, UHM updated GNMA Overlays for ratios in instances where credit files are downgraded as described above to include maximum ratios of 37/37 along with standard provisions (credit scores, payment shock and residual income requirements). The Communications Policy Group has determined a revision of the permissible ratios is in order and the Overlays may be adjusted as follows:

- FHA Approve/Eligible Manual Underwriting Downgrade due to credit history, score or ratio require:
  - Minimum 620 qualifying FICO score; and
  - Maximum Ratios 37/43; and
  - One of the following:
    - <=50% payment shock
    - Residual income based on the ATR/QM qualifying rule

This change is effective immediately.

**FNMA/FHLMC:**

**Fannie Mae Selling Guide Updates [SEL-2016-03](#)**

The Selling Guide has been updated to include changes to the following:

- Multiple Financed Properties
- Updates to Texas Section 50(a)(6) Loans
- Flood Insurance Coverage Requirements



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Please review the Selling Guide announcement distributed on 4/1/16 for full guidance.

### **Fannie Mae, End Loans (Construction Loan Conversion)**

The Communications Policy Group has obtained agency guidance to provide clarification for Borrowers who have utilized construction loans and are looking to convert to permanent financing to determine if the financing designation is that of a purchase or a refinance. The following basic guidelines apply:

- Purchase: If the Borrower does not own the lot, if the lot was deeded to the Builder or if the Borrower owns the lot without a mortgage lien to be paid, the loan is a purchase loan.
- Refinance: If the Borrower owns the lot with a lien to be paid, the loan is a refinance loan.

### **Freddie Mac, [Selling Guide](#) Additional Provisions**

Based on Freddie Mac's recent eligibility analysis, effective 04/15/2016, the following two new provisions are being added to your Single-Family Seller/Service Guide Plus Additional Provisions:

- Wedding Gifts as Borrower Personal Funds: Funds obtained as wedding gifts may be used as an eligible source of Borrower Personal Funds provided certain conditions are met.
- Disbursement of Cash Back to the Borrower: The cash disbursed to the Borrower for "no cash-out" refinance Mortgages may be up to the greater of 1 percent of the new refinanced Mortgage amount or \$2,000 provided certain conditions are met (excluding HARP loans, maximum \$250.00 back).

Also, effective 04/15/2016, the 'Determining Monthly Payments on Revolving Accounts for Calculating Monthly Debt-Payment-to-Income Ratio' provision is being amended to apply only when neither the credit report nor the other documentation in the mortgage file indicates a minimum monthly payment amount.

### **Freddie Mac Announces Guide [Bulletin 2016-6](#)**

This Single-Family Seller/Service Guide ("Guide") Bulletin announces:

Condominium Project and Planned Unit Development (PUD) insurance

Elimination of certain insurance coverage requirements for Condominium Projects that are reviewed under the streamlined project review type, PUDs and fee simple Landowners/Lessors of ground lease communities and specificity about other insurance coverage requirements for Condominium Projects and PUDs.



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No Longer Required:

- Fidelity or Employee dishonesty insurance coverage for Condominium Projects that are reviewed under the streamlined project review type.
- Liability insurance for Condominium Projects that are reviewed under the streamlined projected review type.
- Liability insurance for PUDS and fee simple Landowners/Lessors of ground lease communities.

**VA:**

### VA Circular Updates

[Circular 26-16-10](#): Policy Clarification for Unreimbursed Employee Expenses

PURPOSE: The purpose of this circular is to clarify the Department of Veterans Affairs (VA) underwriting guidelines with regard to unreimbursed employee business expenses reported on Internal Revenue Service (IRS) Form 2106. Of importance:

For a Borrower who qualified using commission income of less than 25% of the total annual employment income, IRS Form 2106 expenses are not required to be deducted from the income even if they are reported on IRS Form 2016 and are not required to be added as a monthly liability.

For a Borrower earning commission income 25% or more of the annual income, IRS Form 2106 expenses must be deducted from gross commission income regardless of the length of time the Borrower has filed the expenses with the IRS.

Exception: Automobile lease or loan payments are not subtracted from the Borrower's income as they are to be included in the Borrower's recurring monthly debt obligations in Section D on the VA Form 26=6393

[Circular 26-16-11](#): Policy Clarification for TILA-RESPA Integrated Disclosure Fee Itemization Requirements and Regarding Loan Expenses Not Expressly Permitted by 38 CFR 36.4313

VA has clarified how to utilize the TRID-CD for VA loans to meet VA program requirements regarding allowable fees and charges which are charged to the Borrower and how to itemize Lender and Seller credits. Lenders may charge only certain fees to Veterans. These are commonly referred to as reasonable and customary "allowable fees and charges" which, for the most part are actually third party fees.

[Circular 26-16-12](#): VA Loan Full File Loan Review - File Upload Stacking Order

The VA has released a new mandatory stacking order for files selected for VA full file loan review and all loan applications submitted to VA on or after June 1, 2016. Please review the Circular for full guidance.



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**USDA:**

**USDA Income and Property Eligibility Site**

The new and improved [USDA Eligibility website](#) will have the same basic functionality and several enhancements as announced in the USDA RD Single Family Housing Program notification of March 25, 2016. The new features include a “Contact Us” menu, tutorials and a SFHG tab to narrow a search to obtain property and income eligibility determinations.

**USDA Student Loans, Impact in the Total Debt Ratio**

Recent updates to the 3555 Handbook intended to simplify guidance for the delivery of the guaranteed loan program have caused some misperception in regards to total debt ratio calculations, specifically in the subject of student loans. The Agency is working on revisions to Chapter 11: Ratio Analysis; however, we want to further clarify the subject at this time.

Total debt includes monthly housing expenses plus any other credit obligations incurred by the applicant. Student loan payments must be included in the calculation of the total debt-to-income ratio and captured under liabilities on the application. Student loan payments should be treated as described below:

- Fixed payment loans: A fixed payment may be used in the debt ratio when the lender retains documentation to verify the payment is fixed, the interest rate is fixed, and the repayment term is fixed. There must be no future adjustments to the terms of the student loan payments.
- Non-Fixed payment loans: Payments for deferred loans, Income Based Repayment (IBR), Graduated, Adjustable, and other types of repayment agreements which are not fixed cannot be used in the total debt ratio calculation. One percent of the loan balance reflected on the credit report must be used as the monthly payment. No additional documentation is required.

**Other:**

**Wage Verification, Tax Transcripts, Reminder:**

Until June 15, 2016, Self-Employed Borrowers that require the consideration of 2015 income must be supported by 2015 Tax Return Transcripts (outside investor) or IRS Stamped Tax Return Transcripts obtained at the local IRS office (agency direct only). Any due taxes must have evidence of being paid and funds sourced.

We are reminded that beginning with loans closed on or after June 15, 2016, UHM must obtain the 2015 Tax Return Transcripts to be eligible for purchase. If a Borrower has filed an extension, we require:



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1. Evidence in the file that the extension was filed, *and*
2. A 2015 Tax Transcript showing “No record of return filed,” *and*
3. For salaried borrowers: A 2013 transcript, a current paystub, and 2015 W-2.
4. For self-employed borrowers: A 2014 transcript and a P & L for 2015 with stamped IRS transcripts.
5. For retired borrowers: In cases where the Borrower is not required to file tax returns, transcripts are still required. If “No results” feedback is received, provide a copy of the feedback in the file with supporting income documentation.

### Texas Severe Storms and Flooding

On April 6, 2016, The Federal Emergency Management Agency (FEMA) announced that federal disaster aid with individual assistance has been made available to the State of Texas to supplement state and local recovery efforts in the area affected by severe storms and flooding.

Federal funding is also available to state and eligible local governments, certain private nonprofit organizations, individuals and business owners on a cost-sharing basis for emergency work and the repair or replacement of facilities in the following counties:

COUNTIES GRANTED INDIVIDUAL ASSISTANCE	FIPS COUNTY CODE	DR Number	FEMA Notice Date
1 Jasper	48,241	<a href="#">DR 4266</a>	3/19/2016
2 Newton	48,351		
3 Orange	48,361		
4 Erath	48,143	<a href="#">Amendment 1</a>	3/26/2016
5 Gregg	48,183		
6 Harrison	48,203		
7 Hood	48,221		
8 Marion	48,319		
9 Parker	48,367	<a href="#">Amendment 2</a>	3/29/2016
<small>Incident End Date Declared            [Note – although the FEMA website in some places shows an incident end date of 3/30/2016, the amendment was effective 3/29/2016].</small>			
10 Henderson	48,213	<a href="#">Amendment 3</a>	<a href="#">Release 4/5/2016</a>
11 Limestone	48,293		
12 Shelby	48,419		
13 Tyler	48,457		

In reaction to Texas storms, please refer to the UHM Disaster Policy in the Lending Guide for product specific appraisal requirements.

Please note at the time of publishing FEMA has not yet announced disaster aid for excessive rain and flooding in the Houston area that occurred on April 18<sup>th</sup> and April 19<sup>th</sup>. Additional due diligence will be required to ensure properties in the Houston area have not been impacted by excessive rain and flooding.

### Louisiana Severe Storms and Flooding

On April 12, 2016, The Federal Emergency Management Agency (FEMA) announced that federal



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disaster aid with individual assistance has been made available to the State of Louisiana to supplement state and local recovery efforts in the area affected by severe storms and flooding.

Federal funding is also available to state and eligible local governments, certain private nonprofit organizations, individuals and business owners on a cost-sharing basis for emergency work and the repair or replacement of facilities in the following parishes:

	PARISHES WITH INDIVIDUAL ASSISTANCE	FIPS COUNTY CODE	DR Number	FEMA Notice Date
1	Bossier Parish	22,015	<a href="#">DR-4263</a>	3/13/2016
2	Claiborne Parish	22,027		
3	Grant Parish	22,043		
4	Morehouse Parish	22,067		
5	Ouachita Parish	22,073		
6	Richland Parish	22,083		
7	Webster Parish	22,119		
8	Beauregard Parish	22,011	<a href="#">Amendment No. 1</a>	3/15/2016
9	Bienville Parish	22,013		
10	Caddo Parish	22,017		
11	Caldwell Parish	22,021		
12	De Soto Parish	22,031		
13	La Salle Parish	22,059		
14	Livingston Parish	22,063		
15	Madison Parish	22,065		
16	Natchitoches Parish	22,069		
17	St. Tammany Parish	22,103		
18	Tangipahoa Parish	22,105		
19	Union Parish	22,111		
20	Vernon Parish	22,115		
21	Washington Parish	22,117		
22	West Carroll Parish	22,123		
23	Winn Parish	22,127		
24	Allen	22,003	<a href="#">Amendment No. 2</a>	3/17/2016
25	Ascension	22,005		
26	Calcasieu	22,019	<a href="#">Amendment No. 3</a>	Effective 3/25/2016
27	Jackson	22,049		
28	Rapides	22,079	<a href="#">Amendment No. 4</a>	Effective 4/4/2016
29	Sabine	22,085		
30	Red River	22,081		
31	Catahoula	22,025		
32	East Carroll	22,035	<a href="#">Amendment 5</a>	Effective 4/7/2016
33	Franklin	22,041		
34	Lincoln	22,061		
35	St. Helena	22,091		
36	Avoyelles	22,009	<a href="#">Amendment 6</a>	Effective 4/8/2016
<small>4/8/2016 Incident End Date Declared</small>				

In reaction to Louisiana storms, please refer to the UHM Disaster Policy in the Lending Guide for product specific appraisal requirements.

### Mortgage Insurance:

#### Essent Guaranty, new BPMI and LPMI Premium Rates

Essent Guaranty has announced new Borrower-Paid and Lender-Paid Monthly, and Lender-Paid Single premium rates are now in effect for all mortgage insurance (MI) commitments issued on or after April 4, 2016.

For your convenience, we have included our [Rate Announcement](#) detailing the changes, along with our new rate cards. You can also access all of our rate cards at [essent.us](http://essent.us).



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### United Guaranty, Expanded Underwriting Guidelines

United Guaranty has announced [expanded underwriting guidelines](#) for doctors, attorneys, and pharmacists with high debt-to-income ratios due to student loans.

This program is available for use provided standard underwriting guidelines are met.

### Recent Releases:

Communications Policy Group Updates:

- GNMA Overlays (adjustment for Manual Downgrade credit score requirements), 4/20/16
- UHM Insurance Requirements (Hazard, Condominium, HO-6 and Flood), 4/20/16

Underwriting Corner:

- Fannie Mae [Selling Guide](#) update, 4/5/16

### Reminder:

All scenarios cannot be addressed, please continually review any and all internal and external updates.