

BROKER / WAREHOUSE LINES / NON-DELEGATED CORRESPONDENT

Monday, September 30, 2019 Bulletin #2019-AC-024

# NOTICE TO ALL CUSTOMERS

## **Important FHA and USDA Credit Updates**

### FHA New Condominium Policy

The Department of Housing and Urban Development (HUD) announced via INFO#19-41 FHA's Condominium Project Approval Final Rule which extends the project approval recertification period from two (2) years to three (3) years and includes the re-introduction of what used to be known as "FHA Condo Spot Approval Process", now called "Single-Unit Approval (SUA) Process".

The SF Handbook 4000.1 will be updated to include two new sections:

- Section II.A.8.p "Condominiums", effective for case numbers assigned on or after October 15, 2019., and
- Section II.C "Condominium Project Approval", effective for Condominium Project Approvals and Re-certifications on or after October 15, 2019.

Overview of FHA's New Condominium Policy:

- Make FHA financing available for units in condominium projects that are not approved by FHA, provided FHA has not financed more than 10% of the units in the project, or no more than two units in projects of 10 or less total units as long as the loan is an "Accept" credit risk from FHA TOTAL Scorecard, or the LTV is < 90% on "Refer" credit risk or Manual Downgrade.</li>
- Extends the recertification requirement for approved condominium projects from two (2) years to three (3) years.
- Updates FHA's minimum owner occupancy requirements in approved project to a minimum of 50%.
- FHA's maximum insuring concentration in an approved condominium projects is now 50% of the total number of units.
- Increases the commercial space percentage from 25% to 35% of the project's total floor area.
- The HOA's Financial Statement must reflect a 10% in reserves of the monthly unit assessment and the reserve study requirement is extended from 12 months or less to 24 months.

The Single-Unit Approval (SUA) Process may take up to 30-45 days and requires the Condominium HOA Management Company to complete an FHA Condominium Loan Level Single Unit Approval Questionnaire (HUD Form-9991) and to provide several documents to process the Single Unit Approval that include: Recorded Covenants, Conditions, and Restrictions (CC&Rs), current year budged approved by the HOA Board, prior year profit and loss statement, YTD profit and loss statement and a balance sheet (both dated within 90 days of the request), FEMA flood map with location of the condominium, etc.

Mortgagee Letter 2019-13 provides lenders with interim instructions for the process of obtaining an FHA case number for a Unit in a Condominium Project that is not FHA-approved and that will be processed as a Single-Unit Approval (SUA) process; FHA systems will be enhanced in the future to permit the issuance of case numbers in unapproved projects; however until system changes are completed, the interim solution set forth in the Mortgagee Letter must be implemented. Please stay tuned for additional communication regarding SUA approval request process at FLC Bank in the near future.

Resources: Mortgagee Letter 2019-13, FHA INFO #19-41, Updated SFH 4000.1

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## **USDA Credit Updates**

USDA Rural Housing Development announced on September 23, 2019 of updates being made to the Student Loan payment requirements which are effective immediately, the changes will be incorporated in the USDA Handbook 3555-1 in the near future; however, lenders can implement the changes now. FLC Bank has updated its USDA credit guidelines with these changes.

Current Student Loan Policy	New Student Loan Policy
Student loans are required to be included in the DTI regardless of payment type or status of payments. Student loan payments should be treated as described below	
<u>Fixed payment loans</u> : The permanent amortized, fixed payment may be used when documentation to verify the payment is fixed, the interest rate is fixed, and the repayment term is fixed is provided.	<u>Fixed payment loans</u> : The permanent amortized, fixed payment may be used when documentation to verify the payment is fixed, the interest rate is fixed, and the repayment term is fixed is provided.
<u>Non-Fixed payment loans</u> : Payments for deferred loans, Income Based Repayment (IBR), Graduated, Adjustable, and other types of repayment agreements which are not fixed require the lender to use as, the monthly payment the greater of:	<u>Non-Fixed payment loans</u> : Payments for deferred loans, Income Based Repayment (IBR), Graduated, Adjustable, and other types of repayment agreements which are not fixed require the lender to use as, the monthly payment the greater of:
<ul> <li>1% of the outstanding loan balance; or</li> <li>The payment as reflected on the credit report.</li> <li>Note: Graduated Payment, Income Based Repayment,</li> <li>Adjustable Rates, Interest only, and Deferred Plans are</li> </ul>	<ul> <li>0.5% of the outstanding loan balance; or</li> <li>The actual payment as reflected on the credit report.</li> <li>Note that some non-fixed student loan payments (graduated, adjustable, etc.) remitted by an applicant may be higher than</li> </ul>
repayment plans that are subject to change and do not represent a fixed payment or a repayment plan therefore, the underwriter must use 1% of the balance.	the new threshold. Therefore, the lender must include the greater of either the actual documented payment or .50% of the loan balance.

Furthermore, several USDA HB-1-3555 chapters are being updated effective October 1, 2019. Here is a preview of some of these changes:

- Form RD 3555-21 "Request for Single Family Housing Loan Guarantee" is being revised and must be utilized accordingly. The updated form eliminates the fields for: Interest Rate, Lock Date and Floating Dates. You may see an advanced copy of the form on this link <u>https://www.rd.usda.gov/files/RD-GRH-3555-21AdvanceCopy.pdf</u>
- Chapter 6: Loan Purposes
  - Updated the Seller Contribution or other interested party contribution to now be a maximum of 6% of the sales price (it used to be 6% of the loan amount)
  - Removed the 2% maximum discount point limit for non-streamlined refinances provided they are the same as those charged to other applicants for similar types of transactions
- Chapter 7: Loan Terms and Conditions
  - o Removed language regarding the maximum interest rate cap for USDA Guaranteed Loans
  - o Removed language requiring underwriting to confirm the date on which the interest rate was locked
- Chapter 12: Property and Appraisal Requirements:
  - Removed the requirement for the appraisal report to include the Market Conditions Addendum Form (1004MC)
  - Removed requirement on Privately Owned Water Systems to be connected to public or community water systems when the cost to connect is feasible and reasonable.

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- Updated USDA's maximum flood coverage requirements, as follows:
  - Flood insurance must cover the lesser of the outstanding principal balance of the loan or the maximum amount of coverage allowed under FEMA's National Flood Insurance Program (NFIP).
  - Unless a higher amount is allowed by state or federal law (which includes FEMA policies), the maximum deductible clause for a flood insurance policy should not exceed the greater of \$1,000, or 1% of the face amount of the policy, or the minimum deductible offered by the borrower's chosen insurance carrier.

Resources: Visit USDA Resource Library to see an advance copy of the updated chapters and Form 3555-21 <u>https://www.rd.usda.gov/programs-services/lenders/usda-linc-training-resource-library</u>

The Product Guidelines will be updated in the next few days, in the meantime, use the policy in this bulletin. Updated guides will be posted on the FLCB website at <u>www.flcbmtg.com</u>. Changes will be noted in blue font for easy reference.

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