Friday, July 22, 2022
Bulletin #2021-AC-018

NOTICE TO ALL CUSTOMERS

FHA Credit Policy Updates

FHA published upcoming changes to Single Family Housing Policy Handbook 4000.1 via FHA Info 2022-68 along with other important credit policy updates published via Mortgagee Letters 2022-09 and 2022-11.
This bulletin summarizes the updates and revisions published by the Federal Housing Administration (FHA) and the timing of their implementation.

Revised Appraisal Validity Period – Mortgagee Letter 2022-11
On July 12, 2022, FHA published updates to its requirements for appraisal validity period with Mortgage Letter 2022-11 bringing FHA's appraisal validity to be in closer tune to the appraisal validity as other loan products, and the effective date can be applied to FHA Case Numbers assigned on or after June 1, 2022, as noted below:

FHA Appraisal Validity Period	
FHA Case Numbers assigned before June 1, 2022	**FHA Case Numbers assigned on or after June 1, 2022**
• Appraisal is valid for 120 days from the effective date of the appraisal report	• The appraisal is valid for 180 days from the effective date of the appraisal report
• Extension of Appraisal Validity for an additional 30-day period is permitted under certain circumstances, or • An appraisal update extending the validity period from 150 to 240 days can be done if the update is performed before the initial appraisal expires	• Removes the 30-day extension period while extending the Appraisal Validity to 180 days, • An appraisal update extending the validity period from 240 days to one year of the effective date of the initial report

FHA Info 2022-68
With this bulletin, FHA notified lenders of new update being made to Section-II.A.1.a.i(A)(2)(b) regarding "Information Obtained via Internet" – The update removes the requirement for lenders to review the URL for documents obtained from a website. These changes may be implemented immediately but must be implemented for loans with FHA Case Numbers assigned on or after September 26, 2022. FLCBank is implementing this update immediately.

Calculating Effective Income for Borrowers Affected by COVID-19 – Mortgagee Letter 2022-09
FHA is providing specific instructions on how lenders are to calculate effective qualifying income for Borrowers who were affected by a reduction or loss of income due to COVID-19. All the provisions noted in this mortgagee letter are effective with FHA Case Numbers assigned on or after September 5, 2022; however, lenders may begin using the policies on this bulletin immediately.
The following sections of the 4000.1 SFH are affected by this new provision and must be adhered to for mortgages with FHA Case Numbers assigned on or after September 5, 2022 when the Borrower suffered a temporary reduction or loss of income because of COVID-19.

- Sections II.A.4.c.iii and II.A.5.b.iii – Primary Employment
- Sections II.A.4.c.iv and II.A.5.b.iv – Part-Time Employment
- Sections II.A.4.c.v andA.5.b.v – Overtime, Bonus or Tip Income
- Sections II.A.4.c.viii and II.A.5.b.viii – Employed by Family-Owned Business
- Sections II.A.4.c.ix and II.A.5.b.ix – Commission Income
- Sections II.A.4.c.x and II.A.5.b.x – Self-Employment Income
- Sections II.A.4.c.xi and II.A.5.b.xi - Additional Required Analysis of Stability of Employment Income

Primary Full-Time Employment **with** Temporary Reduction or Loss of Income due to COVID-19 Related Event

- Salaried Borrowers: The lender must use the "current" salary if the current income will likely be consistently earned.

- Hourly Borrowers whose **hours do not vary**: The lender must use the "current" hourly rate to calculate effective income.

- Hourly Borrowers whose **hours vary**: The lender must calculate effective income by using **the lesser of**:
  - The income earned calculated with an average of the income over the previous two years "prior to the COVID-19 reduction or loss of income". If the lender can document an increase in pay rate during that time, the lender may use the most recent 12-month average of hours worked at the hourly rate for the time period "prior to the COVID-19 reduction or loss of income", **OR**
  - The average income earned since COVID-19.

- Commission Income: The lender must calculate effective income by using **the lesser of**:
  - The lender must calculate the effective income for commission by using the lesser of: either the average commission income earned over the previous two years prior to the COVID-19 reduction or loss of commission income (if commission income earned for two years or more prior to the event), or the length of time commission income had been earned prior to the reduction or loss of income (if commission income had been earned for less than two years but at least one year prior to the event); or the average commission income earned over the previous year prior to the COVID-19 reduction or loss of income; **OR**
  - The average commission income earned since COVID-19.

- Overtime/Bonus/Tip Income: The lender must calculate effective income by using **the lesser of**:
  - The average overtime/bonus/tip income earned over the previous two years or if less than two years but at least one year prior to the COVID-19 reduction or loss of income", or the average overtime/bonus/tip income earned over the previous year prior to the COVID-19 reduction or loss of income; **OR**
  - The average overtime/bonus/tip income earned since COVID-19.

Part-Time Employment **with** Temporary Reduction or Loss of Income due to COVID-19 Related Event

- Part-Time Employment **whose hours do not vary**: The lender must use currently hourly rate to calculate effective income.

- Part-Time Employment **whose hours vary:** The lender must calculate effective income by using **the lesser of**:
  - The income earned calculated with an average of the income over the previous two years "prior to the COVID-19 reduction or loss of income". If the lender can document an increase in pay rate during that time, the lender may use the most recent 12-month average of hours worked at the hourly rate for the time period "prior to the COVID-19 reduction or loss of income", **OR**
  - The average income earned since COVID-19.

Employed by Family-Owned Business **with** Temporary Reduction or Loss of Income due to COVID-19 Related Event

- Salaried Borrowers: The lender must use the "current" salary if the current income will likely be consistently earned.

- Hourly Borrowers whose **hours do not vary**: The lender must use the "current" hourly rate to calculate effective income.

- Hourly Borrowers whose **hours vary**: The lender must calculate effective income by using **the lesser of**:
  - The average income earned calculated with an average of the income over the previous two years "prior to the COVID-19 reduction or loss of income". If the lender can document an increase in pay rate during that time, the lender may use the most recent 12-month average of hours worked at the hourly rate for the time period "prior to the COVID-19 reduction or loss of income", **OR**

- The average income earned since COVID-19.

Self-Employment Income **with** Temporary Reduction or Loss of Income due to COVID-19 Related Event

The lender may consider self-employment income for Borrowers with a reduction of income due to COVID-19 if the borrower has an “aggregate of self-employment income totaling two years before and after the COVID-19 reduction or loss of self-employment income”. Also, additional documentation and lender analysis for stability is required:

- Letter of Explanation for the time period of income loss or reduction;
- Copies of the Borrower’s business tax returns for the most recent two years; and
- Either of the following:
  - An audited YTD Profit & Loss statement reporting business revenue, expenses, and net income up to and including the most recent month preceding the case assignment date; or
  - An unaudited YTD Profit & Loss statement signed by the Borrower reporting business revenue, expenses, and net income up to and including the most recent month preceding the case assignment date, and three of the most recent business bank statements no older than the latest three months represented on the YTD Profit & Loss statement. Monthly deposits on the business bank statements must support the earnings on the unaudited YTD Profit & Loss.

Calculation of Self-Employment Income for Borrowers with **a reduction or loss** of self-employment income due to COVID-19:

- Self-Employed Borrowers who have since regained income at a level ≥ 80% of their income prior to COVID-19 for a minimum of six months, the lender must calculate gross Self-Employment Income by using **the lesser of**:
  - The average gross Self-Employment Income earned over the previous two years prior to the COVID-19 event; **OR**
  - The average gross Self-Employment Income earned over the previous six months after the COVID-19 event.

- Self-Employed Borrowers whose regained income since COVID-19 is < 80% of the effective income prior to COVID-19, require the lender to manually downgrade the loan.
  - The lender may consider the income as “stable” after a 20% reduction if the lender is able to document the reduction of income was a result of COVID-19 **and**
  - The Borrower can demonstrate the income has been stable or increasing for a minimum of six months, and the Borrower qualifies utilizing the reduced income.

Lenders, Originators and Stakeholders are encouraged to review and familiarize themselves with the changes outlined in the Handbook 4000.1 Transmittal in its entirety. FLCBank’s FHA guidelines are being updated and will reflect the above changes in the next few days.

To access our most recently updated Temporary Policies Related to COVID-19 (version 47) please click here.

If you have any questions, please contact your Account Executive or Client Relations Representative.