

Monday, August 17, 2023

Bulletin #2023-AC-019

NOTICE TO ALL CUSTOMERS

Conventional Underwriting Guideline Updates

This bulletin provides a summary of important updates being made to several sections of FLCBank's conventional underwriting guidelines.

Condominium Project Review Requirement Updates

Fannie Mae and Freddie Mac announced they are making the temporary policies for project review addressing projects in need of critical repairs, deferred maintenance and special assessment permanent policy starting with new loan applications dated on or after September 18, 2023, for units located in Condominium Project with ≥ 5 attached units regardless of the project review type.

In addition to the temporary requirements becoming permanent policy, the following are new condo policy requirements that must be complied with starting with loan applications dated on or after September 18, 2023:

- **Critical Repairs:** Defined as material deficiencies and significant deferred maintenance items. Loans secured by a condominium in a project with any unfunded repairs costing more than \$10,000 per unit that should be undertaken within the next 12 months are not eligible. Does not include repairs made by the unit owner or repairs funded through a special assessment.
- **Inspection Reports:** If a structural and/or mechanical inspection was completed within 3 years of the lender's project review date, the lender must obtain and review the inspection report. The report cannot indicate that any critical repairs are needed, no evacuation orders are in effect, and no regulatory actions are required.
- **Delinquent Special Assessments:** For Limited and Full Reviews, no more than 15% of the total units in a project are 60 days or more past due in the payment of each special assessment.
- **Fannie Mae Project Review Waiver:** When the project review is waived on a Fannie Mae loan per permissible policy, the Lender must confirm the project is not in Condo Project Manager (CPM) with a status of "Unavailable". If the transaction to refinance a Fannie Mae owned/serviced mortgage with a new Fannie Mae limited cash out refinance mortgage, the Lender needs to confirm there are no unaddressed critical repairs outstanding or projects with evacuation orders.
- **Freddie Mac Project Review Waiver:** When the project review is waived by Freddie Mac per permissible policy or when a Freddie Mac owned/serviced mortgage is being refinanced with a Freddie Mac no cash out refinance mortgage, or when the new mortgage is a Refi Possible, the Lender needs to confirm the Condominium Project is not in need of critical repairs and does not have an evacuation order.

New Eligibility Requirements for Limited Cash Out Refinances (Fannie Mae)

The eligibility requirements for Limited Cash Out Refinances have been revised to stipulate that at least one borrower on the new loan must be a current owner of the subject property (on title) at the time of the initial loan application. Exceptions to this policy are permitted in the following situations:

- The borrower acquired the property through an inheritance or was legally awarded the property via a legal settlement or divorce decree, or
- The property was previously owned by an inter vivos revocable trust and the borrower is the primary beneficiary of the trust.

This update is effective with new loan applications dated on or after September 1, 2023.

Appraisal Standard Updates - Fannie Mae and Freddie Mac

Effective for Appraisals with an effective date on or after November 1st for Fannie Mae and November 2nd for Freddie Mac, Appraisers must utilize the American National Standards Institute (ANSI) standards for the interior and exterior inspections for finished and unfinished areas in 1-unit properties.

Qualifying Rate for 7/6 and 10/6 ARMs - Fannie Mae

Borrowers will be qualified using the Note Rate on 7/6 or 10/6 ARM loans when the transaction falls under the QM-Safe Harbor designation, FLCBank will align to this update on August 19, 2023, when DU will be updated accordingly.

7/6 or 10/6 ARM loans that are higher-priced mortgage loans or higher-priced covered transactions (which fall under the QM Rebuttable Presumption designation, are eligible for financing), must continue using the greater of the note rate or the fully indexed rate as the qualifying rate.

Note that Freddie Mac already has this policy in place for 7/6 ARM and 10/6 ARM loans bringing unison in both GSEs when comes to this topic.

FLCBank's Condominium Guidelines, Condominium Project Review Questionnaires, and Fannie Mae and Freddie Mac Conventional guidelines are in the process of being updated.

Please contact your [Account Executive or Client Relations Representative](#) if you have any questions.