

NOTICE TO ALL CUSTOMERS

Important Credit Updates

FLC Bank is providing credit policy updates on several recent announcements by Fannie Mae, Freddie Mac, FHA, and USDA.

Fannie Mae

3D Printed Homes - Acceptable Collateral

3D printed homes with a traditional design and constructed using conventional building materials are not considered unique or nontraditional housing types by Fannie Mae, thus standard eligibility, and comparable sales selection requirements as those for site-built housing will apply.

FLC Bank accepts this update without overlay.

Self-Employment Requirements

A 2-year self-employment history is required to ensure that the income is stable. However, under certain circumstances, Fannie Mae accepts borrowers who have been self-employed for less than 2 years. The updated policy requires the borrower's most recent signed personal and business tax return to denote a full year (12 months) of self-employment income from the current business.

In addition, the policy allowing one year of personal and business tax returns was updated to require both requirements to be present:

- All self-employed businesses must have been in existence for five years, and
- The borrower has had a 25% or greater ownership interest for the last five consecutive years.

This policy change is effective immediately on new loan applications "finalized" to FLC Bank on October 26, 2023.

Freddie Mac

Appraisal Waiver Eligibility (ACE) Update

- Lenders cannot exercise the appraisal waiver when there is the gift of equity in the transaction. This update is effective immediately.

Desktop Appraisal Eligibility Update

- If the property securing the mortgage is classified as "mixed-use", the lender cannot exercise the Desktop Appraisal option issued by the LPA. This update is effective immediately.

Student Loan Debt Payment

Effective immediately, an amount greater than zero must be included in the monthly DTI ratio for all student loans, including income driven repayment plans. Additionally, when the monthly payment amount reported on the credit report is zero, the lender may use 0.5% of the outstanding loan balance or may use other documentation to determine the amount to be included in the DTI ratio.

Effective with loan applications "finalized" to FLC Bank on or after November 1, 2023, Student loans in Income-Driven Repayment Plans must adhere to the following:

- An amount greater than zero must be included in the monthly DTI ratio (the lender may use 0.5% of the outstanding balance, or other documentation to determine the amount to be included in the DTI ratio), unless documentation indicates the Borrower must recertify their income and/or the Borrower's payment will increase prior to or on the first mortgage payment due date.

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- When documentation in the loan file indicates the Borrower must recertify their income and/or that the Borrower's payment will increase prior to or on the first mortgage payment due date, the lender must include in the monthly debt payment-to-income ratio:
 - The greater of the current payment or 0.5% of the outstanding loan balance, or the documented future payment amount if greater than the current payment,
- Or
- The future payment amount that is less than or equal to the current payment, provided that the Mortgage file contains documentation that the Borrower has been approved.

No Cash Out Refinance

Effective immediately, the payoff amount of the first mortgage may include a balance deferred under a loss mitigation plan and any costs or fees associated with the satisfaction and release of the first Mortgage, such as late fees and prepayment penalties.

Cash Out Refinance

Effective immediately, when the title is held by a limited liability company or limited partnership, the transfer of the title into the Borrower's name may now be completed on or before the Note Date.

FHA

Updates to Rental Income Policies, Property Eligibility and Appraisal Protocols for Accessory Dwelling Units (ADU) FHA published [Mortgagee Letter 2023-17](#) establishing guidelines for the consideration of rental income and the protocols for the Appraiser's analysis and reporting of Accessory Dwelling Unit (ADU) market rent on appraisals. Currently, FHA does not allow for the inclusion of income from the Accessory Dwelling Unit (ADU) for qualifying purposes, but with the publication of [Mortgagee Letter 2023-17](#), FHA A is updating its appraisal protocols, underwriting requirements, to allow the inclusion of income from an ADU in the Borrower's qualifying income for qualifying purposes.

FLCBank is in the process of reviewing this FHA announcement in full and will provide more information once the FHA Underwriting Guidelines are updated and posted.

USDA

2024 Fiscal Year Guaranteed Funds Available

The USDA Rural Housing Development announced on October 17, 2023, funding availability for Single Family Guaranteed Loan Program 2024 Fiscal Year that started October 1, 2023.

Income and Asset Documentation

Calculation of Income from Assets on Self-Employed Borrowers: The underwriter needs to verify that assets are not transferred from a personal account to a business account and vice versa. The accounts should function separately. If the accounts are co-mingled, the assets would need to be included in the calculation of net family assets. This update is effective immediately.

Credit Eligibility Requirements

The Guaranteed Loan Program Handbook 3555.1 has been revised to include the following changes effective immediately:

- Overdraft/Non-Sufficient Funds (NSF) must be considered by the underwriter in the credit decision.

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- Repayment Plans for Federal Taxes must be properly documented with a copy of the repayment plan and three timely payments, this is true for applicants with multiple repayment plans; furthermore, in the event of multiple approved repayment plans, the lender must determine if the borrower is an acceptable credit risk.
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Resources: [FNMA SEL-2023-08](#), [FNMA SEL-2023-09](#), [FHLMC Bulletin 2023-18](#), [FHLMC Bulletin 2023-19](#), [USDA Procedure Notice 592](#), [USDA-RD Bulletin](#), [Mortgagee Letter 2023-17](#)

If you have any questions, please contact your [Account Executive or Client Relations Representative](#).