

Thursday, December 7, 2023

Bulletin #2023-AC-031

## NOTICE TO ALL CUSTOMERS

### Important Credit Updates

FLC Bank is providing updates to multiple credit policies on Conventional, FHA and VA loan programs.

#### Fannie Mae Rental Income

Fannie Mae has updated the policies for documenting rental income and the way by which lenders are to determine rental income from the subject and non-subject properties.

This update will require the borrower to have a primary housing expense and at least a one-year history of property management experience to use the full amount of rental income towards qualifying. Other updates include that when rental income is considered from multiple rental properties, the income or loss is calculated on a per property basis but then aggregated for non-subject properties so the total amount of either income or loss across all rental properties is considered in the calculation of the borrower's total debt-to income ratio.

Also, the Comparable Rent Schedule Form 1007 or the Small Residential Income Appraisal Form 1025 must support the income reflected on the lease agreement or the lease agreement must provide evidence that the terms of the lease have gone into effect with proof of receipt for at least two months rental payments.

These requirements are effective with loan applications finalized to FLC Bank on or after December 7, 2023. Please refer to our Fannie Mae guidelines posted in the Resource Center.

#### Freddie Mac Rental Income

Freddie Mac updated their policies for rental income requirements which include removing the requirement that a lease agreement must have a minimum original term of one-year while specifying that for newly executed lease agreements, the first rental payment due date must be on or before the first payment due date of the mortgage.

Other updates include a revision allowing the receipt of the security deposit plus the first month's rental payment, in lieu of receipt of 2 months' rental payments; as well as removing the appraisal requirement that at least one comparable sale must have an ADU that is rented when rental income from an ADU on a 1-unit primary residence is used to qualify the Borrower.

These updates are effective immediately. Please refer to our Freddie Mac guidelines posted in the Resource Center.

## FHA Updates

1. Allows prospective Borrowers financing a property with an ADU to use some of the actual or projected rental income from the ADU.
  - The amount of the rental income from an ADU must not exceed 30% of the total monthly income used to qualify the Borrower.
  - When rental income from the ADU is used to qualify, the Borrower must have 2 months reserves of PITIA.
  - Rental income from the ADU cannot be used to qualify the Borrower for a cash out refinance.
  - The lender must verify and document the proposed rental income by obtaining a Full URAR appraisal report and the Comparable Rent Schedule and if available, the prospective lease.
2. Added new requirements for the appraiser's analysis and reporting of ADU rental history or market rent in FHA appraisals.
  - The appraiser must provide a description of the ADU and market acceptance.
  - Report the GLA of the ADU separate from the primary dwelling.
  - State whether the ADU can be legally rented without restriction, and
  - Report on the current ADU occupancy and any known lease agreements.

These requirements are effective immediately. Please refer to our FHA guidelines posted in the Resource Center.

## VA Updates

1. Medical collections and charged-off medical accounts: Lenders may disregard all identifiable medical collections, including charge-off accounts, that have not been reduced to a judgment or lien.
2. The payment consideration for unpaid non-medical collection accounts: Non-medical collection accounts must be considered as part of the veteran's overall credit history.
  - If accounts are listed on credit report with minimum payment, use minimum payment.
  - If there are no payment arrangements on credit report, underwriter should use 5% of the outstanding balance of the collection.
  - Borrowers with a history of these types of derogatory accounts should have re-established satisfactory credit in order to be considered a satisfactory credit risk.

These updates are effective immediately and will be incorporated into FLCBank's VA guidelines in the next few days.

## Resources

- [Fannie Mae SEL-2023-09](#)
- [Freddie Mac Bulletin 2023-19](#)
- [Mortgagee Letter 2023-17](#)
- [VA Change 37 to Chapter 4](#)

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