

NOTICE TO ALL CUSTOMERS

Important Conventional Credit Updates

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

Fannie Mae and Freddie Mac

Interested Party Contributions (IPCs)

The GSEs announced updates to their definitions related to Interested Party Contributions (IPCs) and are updating the related requirements to provide greater clarity around this topic which include:

- Providing more detailed definitions of interested parties, interested party contributions, sales concessions and requiring lender incentives from an interested party to be treated as a sales concession.
- List the types of contributions that are not subject to the interested party contributions requirements:
 - Lender credit: Lender credit provided by an originating lender affiliated with an interested party to the transaction, provided the lender credit is derived from an increase in the interest rate (i.e. premium pricing)
 - Gifts from a Related Person: Gift funds or gift of equity from a Related Person who is also the seller of the subject property, provided that:
 - The donor is not the builder, or another interested party and has no affiliation with any other interested party to the transaction, and
 - All the requirements for gift funds or gift of equity from a Related Person are met.
 - Real estate tax credits: Prorated real estate tax credits contributed by the property seller in areas where real estate taxes are paid in arrears.
 - Builder forward commitment costs: The costs incurred by a builder prior to entering into a contract with the Borrower, for obtaining a forward commitment from a lender to offer future buyers Mortgages at a specific interest rate.

Prorated Real Estate Tax Credit

Fannie Mae clarified their position and now joins Freddie Mac regarding Prorated Real Estate Tax Credit which now can be considered in determining the amount of funds required from the borrower at closing only when an escrow account has been established and includes the portion of taxes owed by the property seller for the period of time they owned the property. In such cases, the prorated real estate tax credit from the seller may offset that portion of the funds needed for the escrow account. FLCBank is implementing these updates immediately.

Fannie Mae Temporary Guidance for Inflation Guard Requirements for Project Developments

Fannie Mae published temporary guidance which will expire on December 31, 2026, upon written rescission, or upon issuance of an announcement or Lender Letter that amends related Guide requirements, whichever occurs first. The temporary guidance is intended to help lenders and industry participants use it as a reference to satisfy inflation guard coverage requirements when not obtainable in the insurance market available to the association, FLCBank accepts this guidance accordingly for loans located in a condominium unit project that closes utilizing DU as the AUS.

- Master property insurance policy includes inflation guard coverage – No additional information is required.
- Master property insurance policy includes an Extended Replacement Cost (ERC) or Guaranteed Replacement Cost (GRC) endorsement (or equivalent coverage) – Inclusion of one of these endorsements (or equivalent coverage) is acceptable as they provide a similar level of protection as inflation guard. No additional explanation from the insurance agent is required.
- Master property insurance policy does not include one of the options above:
 - Insurance agent/insurer confirms that inflation guard coverage is not obtainable from the current insurer – Confirmation from the insurance agent/insurer that inflation guard coverage cannot be obtained from the current insurer sufficiently documents that the coverage is not obtainable in the insurance market available to the association.

Or

- Evidence of insurance or insurance agent/insurer confirms that they complete an annual review of the coverage amount and they increase the coverage amount to not less than 100% of the replacement cost value (RCV) each year – This is acceptable in lieu of the policy having inflation guard coverage as it achieves the spirit of the policy intent.

IMPORTANT: Confirmation of an annual review of the coverage amount without confirmation that the coverage is increased to at least 100% of the RCV is not sufficient.

Fannie Mae Integrating Condo Project Manager (CPM) and DU

Fannie Mae published SEL-2025-02 and DU/DO Release Notes – May 2025 announcing Fannie Mae is integrating Condo Project Manager (CPM) with Desktop Underwriter (DU) with new DU submissions on or after June 23, 2025, to provide greater certainty to lenders when projects have been approved by Fannie Mae. For loans that receive an Approve/Eligible recommendation and the CPM Approved by Fannie Mae message in DU to retain the Fannie Mae project approval status through the credit report expiration date as specified on the DU Underwriting Findings report. *FLCBank Credit Policy is in the process of reviewing these changes and will provide more information regarding impacts to the Condominium Guidelines and project review requirements shortly.*

Freddie Mac Updated Employed Income requirements, Calculation methods, Pension Income and Child Support documentation

Freddie Mac provided updates and clarifications via Bulletin 2025-6 on a number of income related topics. FLCBank is implementing these updates immediately.

- Base non-fluctuating employment earnings type updates:
 - Minor variations in base hours on paystubs (i.e., Borrower clocked out a few minutes early) are acceptable and may be treated as base non-fluctuating earnings when the variation is no more than an hour per week.
 - Added requirements for Borrowers with base earnings that fluctuate but have a position with a minimum number of required hours. The earnings may be considered non-fluctuating, and the minimum required hours are acceptable to use for gross pay if certain requirements are met.

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BROKER / WAREHOUSE LINES / NON-DELEGATED CORRESPONDENT

- Base fluctuating hourly employment earnings calculation method updates:
 - Specified that the base fluctuating hourly earnings must be averaged over the most recent year(s) and YTD income, with examples.
 - Added exception language for when a Seller may average using less than the most recent year(s) and YTD income, with examples.
 - Excluding time periods based on a specific event unlikely to recur:
 - Permit calculation to be based on a shorter number of months (no less than 12 months combined) in certain instances for base fluctuating hourly earnings and bonus, overtime, commission, and tip earnings.
- Pension Income Documentation (existing and established pension income):
 - When IRS Form 1099 is used to document current receipts and verify the income type and source, the age of documentation requirements does not apply.
- Documentation of tax-exempt status for income from child support payments:
 - Removed the requirement to provide documentation evidencing the tax-exempt status of income from child support payments.

FLCBank's Fannie Mae and Freddie Mac Guidelines will incorporate the changes described in this bulletin in the next few days.

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

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