



Seller Guide Update



SEL-2019-013: Multiple Topics

March 25, 2019

- Correspondent Lending
- Housing Finance Agency (HFA)

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Summary



The following items have recently been updated in the U.S. Bank Correspondent Seller and HFA Division Lending Guides, specific to Loan Delivery, Underwriting and Credit Policy.

U.S. Bank Correspondent Seller and HFA Division Lending Guides

Unless otherwise notated within each section as Correspondent only policy or based on product availability such as Portfolio products available only in Correspondent, these updates are applicable to both our Correspondent and HFA lenders.

The respective sections of the U.S. Bank Correspondent Seller and HFA Division Lending Guides are included in each section.

Effective Date

Immediately unless otherwise noted within each section below.



Correspondent Overlay Updates

The following enhancements and updates have been made to the **Correspondent Overlay Matrix** (attached):

- **Overall Structure Enhancements and Simplification**
 - **New Easy D™ and Mandatory Delivery Columns** - For clients delivering Easy D and Mandatory loans, these new columns provide overlays specific to the delivery utilized.
 - **Program/Product-Specific Overlays** – To simplify the navigation process for our product-specific overlays, we have moved these items to the mortgage program and product sections located at the end of the matrix; this also includes the applicable product codes.
- **Clarified Overlays** – The following overlay has been clarified as it was previously included in our guidelines, but not captured on the matrix.
 - **FHA Rental Income** – For non-delegated loans, U.S. Bank will continue to require the PITIA be included as a part of the rental income calculation instead of including it as a debt in the DTI.
- **Updated Overlays**
 - **Rental Income – Agency Loans Only:** Freddie Mac [Bulletin 2018-09](#) announced their new rental income requirements that are effective March 1, 2019. To simplify the requirements, U.S. Bank will make this requirement the same for both Fannie Mae and Freddie Mac loans that are underwritten by U.S. Bank.
 - The Borrower must own a Primary Residence to use rental income to qualify when purchasing a new rental property; and
 - Whether purchasing a new rental property or converting a Primary Residence to a rental property, if the Borrower does not have a minimum of one-year investment property management experience:
 - The rental income can only offset the principal, interest, taxes and insurance (PITI) of the rental property; and
 - Rental income exceeding the PITI cannot be added to the Borrower’s gross monthly income to qualify
- **New Overlays**
 - **Freddie Mac Products 3601, 3602, 3604, and 3619** – FHLMC loans locked under these products that have an LTV > 95 percent require an LPA decision. DU is not allowed on these products with an LTV > 95 percent. Alternatively, lenders may utilize the following Fannie Mae Products as outlined on the matrix: 3501, 3502, 3503, 3507
 - **VA (Non-Delegated) Gross Up Rate** – The percentage of non-taxable income that can be grossed up will be limited to 15 percent for all VA loans.

Guide Section: Please refer to the [Correspondent Overlay Matrix](#) > U.S. Bank Correspondent Seller > 1400: Overlay Matrix > Overlay Matrix for complete details.

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Mortgage Insurance Premiums: Loans with DTI > 45 Percent

Various mortgage insurance providers have recently announced that to assist borrowers in obtaining mortgage insurance, they will now offer the option of excluding the mortgage insurance (MI) premium from the debt-to-income (DTI) ratio when qualifying the borrower(s) or calculating the MI premium.

It is important to note that neither Fannie Mae or Freddie Mac guidelines permit this option.

U.S. Bank Loan Eligibility Requirements

U.S. Bank loan eligibility requirements will continue to require that the MI premium be included in the DTI to be eligible for purchase by U.S. Bank.

Income Analysis Policy Changes

Correspondent Only:

Rental Income – Agency Loans Only - [Freddie Mac Bulletin 2018-09](#) announced their new rental income requirements that are effective March 1, 2019. To simplify the requirements, U.S. Bank will make this requirement the same for both Fannie Mae and Freddie Mac loans that are underwritten by U.S. Bank.

- The borrower must own a primary residence to use rental income to qualify when purchasing a new rental property; and
- Whether purchasing a new rental property or converting a primary residence to a rental property, if the borrower does not have a minimum of one-year investment property management experience:
 - The rental income can only offset the principal, interest, taxes and insurance (PITI) of the rental property; and
 - Rental income exceeding the PITI cannot be added to the borrower's gross monthly income to qualify

Correspondent and HFA:

2106 Expenses:

Following recent tax law changes, unreimbursed employee expenses (2106) will no longer be documented on federal individual tax returns.

- Fannie Mae and Freddie Mac have removed the requirements to deduct these expenses from the gross commission income.
- FHA, VA and USDA have not announced any changes to their current requirements. If the borrower has previous documented 2106 expenses, there is no change in to how income is calculated.
- Portfolio loans follow Dodd-Frank requirements. For borrowers who do not have any 2106 expenses documented on their 2018 tax returns, the assumption can be made that there will be no future 2106 expenses and any previous tax year 2106 expenses can be disregarded.

Gross Up Rate – FHA and VA Loans:

U.S. Bank will limit the percentage non-taxable income can be grossed up to 15 percent for all FHA and VA loans.

Guide Sections: Correspondent Overlay Matrix, 711.4 FHA - Effective Income, 712.6 VA - Effective Income, 713.7 Agency - Effective Income, Income Analysis Worksheet, Income Analysis Manual

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FHA 10-Year Warranty Change

FHA recently announced that effective with case numbers assigned on or after March 14, 2019, they removed the requirement of a ten-year warranty plan for new construction. New Construction refers to proposed construction, properties under construction and properties existing less than one year (by construction status at the time of the appraisal).

- Proposed Construction refers to a property where no concrete or permanent material has been placed. Digging of footing is not considered permanent.
- Under Construction refers to the period from the first placement of permanent material to 100 percent completion with no Certificate of Occupancy or equivalent.
- Existing less than one year refers to a property that is 100 percent complete and has been completed less than one year from the date of issuance of the Certificate of Occupancy or equivalent and has never been occupied.

FHA will no longer require or approve specific ten-year warranty programs. A buyer may choose to purchase a ten-year warranty program but will not be required to purchase one approved by HUD.

Upcoming Changes: New URLA



New Uniform Residential Loan Application (URLA)

The new URLA was developed by the GSEs (Fannie Mae and Freddie Mac) in partnership with the mortgage industry to provide greater efficiency, transparency and certainty for consumers applying for mortgage loans. The use of the new URLA is required by the GSEs for all lenders to originate loans eligible for sale on the secondary market, and to satisfy the safe harbor requirements of the Equal Credit Opportunity Act (ECOA). **Lenders may choose to use the new URLA starting July 1, 2019. However, the GSEs will not require such usage for new loan applications until February 1, 2020.**

Ongoing Communication

U.S. Bank is currently reviewing and assessing the operations and technology impacts of the new URLA and is committed to providing our lenders with information once available to ensure a smooth transition.

Correspondent Only: VA Closed Loan Documentation Transmittal Delivery Requirements

Effective April 1, 2019, U.S. Bank will update our **VA Closed Loan Documentation Transmittal Delivery Requirements Form** to include the following item specific to the new VA Cash-Out Refinance Loan requirements recently announced:

- Verification that the loan is a **VA Cash-Out Refinance Type 1 – VA to VA**,
- If the answer/selection is 'Yes', the loan file must include the **Fee Recoupment Certification Disclosure**

The **VA Closed Loan Documentation Delivery Requirements Form** must be included with the submission of the closed loan file on all VA Cash-Out Refinance transactions.

Please refer to the **Correspondent Seller Guide** for complete details.

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Correspondent Only: Update to Portfolio Underwriting Guidelines

U.S. Bank recently made the following clarifications and minor changes to the Portfolio employment, income and debt policy within the U.S. Bank Correspondent Underwriting Guidelines:

- 714.1.2 Lending Policy – Updated loan amounts for qualified mortgage points and fees test; Added Application and Referral Source Section; Minor Updates
- 714.1.3 Underwriting Documentation – Moved Appraisal Expiration Policy to Appraisal Section and moved Mortgage Debt Paid by Business to Borrower Liabilities.
- 714.1.4 Borrower and Occupancy – Clarified that each eligible borrower must have a valid SSN; Minor Updates
- 714.1.5 Credit – Renamed Derogatory Credit to Foreclosure, Short Sale and Deed in Lieu; Minor Updates
- 714.1.6 Assets/Funds to Close – Minor Updates
- 714.1.7 Secondary Financing – Updated PACE information; Added Home Equity Line of Credit; Minor Updates
- 714.1.8 Transaction Documentation –Minor Updates
- 714.1.9 Property –Minor Updates
- 714.1.10 Appraisals – Added that appraisals provided by borrower are not acceptable; Added Appraisal Use and Reuse; Minor Updates; Added Appraisal Expiration Policy
- 714.1.18 Refinance Loans – Added Value Determination; Minor Updates
- 714.2.1 Summary – Minor Updates
- 714.2.2.2.1 Salary, Wage and Other Forms of Income – Updates to Documentation requirements for Pension, Retirement Income and Social Security Income; Minor Updates
- 714.2.2.3 Non-Employment Income – Clarify gross up income requirements; Minor Updates
- 714.2.3.1 Borrower Liabilities – Recurring Obligations – Update to Student Loan Payments, Adjustable Rate Requirements and Line of Credit; Minor Updates; Added Mortgage Debt Paid by Business
- 714.2.3.3 Borrower Liabilities – Projected Obligations - Update to Student Loan Payments
- 714.2.3.4 Student Loan Debt Calculations - Update to Student Loan Payments for Portfolio Loans

Reminder: Condo Project AdvisorSM

As a reminder, Freddie Mac issued [Bulletin 2018-18](#) announcing various updates including Condo Project AdvisorSM effective November 5, 2018. Condo Project Advisor is accessible through the Freddie Mac Loan Advisor Suite[®] portal, and allows lenders to request loan-level waivers directly from Freddie Mac for Established Condominium Projects.

U.S. Bank will accept the approved Project Waivers and the feedback certificate must be included in the loan file submitted for purchase.

Questions



Correspondent: Please contact your Account Executive or the Client Support Area at 800.200.5881, option 1.

HFA: Please contact the Housing Finance Agency Hotline at 800.562.5165, option 1 for the HFA Customer Care Team.

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**U.S. Bank Consolidated Agency and Government Overlays applicable to Correspondent Lending
(as of 03/21/19)**



To mitigate the risk on the loans we purchase, U.S. Bank Home Mortgage has overlays to Agency and Government guidelines (i.e., Fannie Mae, Freddie Mac, FHA, USDA, VA).

- An "X" in the investor and/or delivery column indicates that the overlay applies to loans submitted under a lender's delegated and non-delegated underwriting authority and/or the delivery method.
- A "ND" in the investor column indicates that the overlay applies to loans submitted under a lender's non-delegated underwriting authority.
- The Overlay Descriptions are summarized alphabetically by topic in each section.
- References are not all-inclusive and this document should be used in conjunction with the Correspondent Seller Guide. For complete product guidelines, refer to the applicable product and underwriting guidelines within our seller guide.
- Items added, removed or modified are referenced in the Seller Guide Update that are released along with the most recent version of the Matrix.

Topic	Overlay Description	Agency/Government						
		Freddie Mac	Fannie Mae	FHA	USDA	VA	EZO Product	Mandatory
		Investor					Delivery	
Acreage/ Eligible Properties 713.17	supported with appraisal comparable of similar acreage.	X	X					
Adverse Credit/ Recovery Time Periods 711.7.1	Must meet all time frame requirements as U.S. Bank Home Mortgage does not allow shorter time frame for extenuating circumstances.			X				
Anti-Flipping Policy 712.15	If the Seller must have taken title to the subject property more than 90 days prior to the contract date on the sale of the property to the applicant.					ND		
Anti-Flipping Policy 713.15	If the seller acquired the property 90- or fewer days prior to the date of the sales contract and the current sales price exceeds 10% of the seller's acquisition, a second review of the appraisal must be completed by U.S. Bank Home Mortgage. Properties acquired by the seller over 90-days, but less than 180-days prior to the date of the sales contract (and the current sales price exceeds 20% of the seller's acquisition) requires a second review of the appraisal.	X	X					
Co-ops 713.17	Not eligible.	X	X					
Credit/Debt Underwriting 713.9	680 minimum FICO required for > 95% LTV loans.	X	X					
Debt-to-Income (DTI) 711.2; 712.2; 713.2; 715.2	No maximum DTI requirements. For non-delegated loans underwritten by U.S. Bank, Underwriters should comment on the 1008 and/or another underwriting loan summary form on their assessment of the sufficiency of borrower's income to repay the loan for DTIs > 43%.	ND	ND	ND	ND	ND		
Delegated Authority 720.1	A minimum 620 credit score is required on loans using your conventional delegated authority.	X	X				X	X
Down Payment and Closing Assistance 712.24; 713.11; 715.6	Eligibility varies by product and specific loan criteria as outlined by product guidelines 1. Shared appreciation is not allowed 2. Non delegated correspondents must use U.S. Bank Approved Community Seconds List as provided in the Seller Guide.	X	X	X				
Excess Acreage 711.12	Parcels exceeding 20 acres will be considered an exception and must follow the FHA exception process. All acreage must be included in value.			ND				
Extended Absence 713.7	Borrowers who were out of the work force due to unemployment for a period of 6 months or longer must be on the current job 6 months or longer to utilize their income for qualifying.	X	X					
Final Inspection New Construction 711.11	Final inspection required by appraiser or fee inspector.			X				
Foreign Assets 711.5; 712.8; 713.8; 715.5	Assets from a secondary high-risk country must be underwritten by USBHM.	X	X	X	X	X		
Foreign Income 711.4; 712.6; 713.7; 715.4	Income from a secondary high-risk country must be underwritten by USBHM.	X	X	X	X	X		
Form 1077 Alternative 713.2	USBHM will require the Fannie Mae Form 1008/Freddie Mac Form 1077 on all loan files and will not accept alternative forms.	X	X					
Gross Up Rate 712.6	The percentage non-taxable income can be grossed up will be limited to 15% for all VA loans when there is no tax rate.					ND		
Income Commencing After Note Date/Effective Income 713.7	Freddie Mac: Future income (Option 2) not allowed for start dates greater than 90-days due to delivery complexities. Fannie Mae: Not offering income commencing after note date due to delivery complexities	X	X					
Ineligible Borrowers 711.3; 712.5; 713.5; 715.3	Life Estates, guardianships, and conservatorships are not eligible.	X	X	X	X	X		X
Investment Properties currently or formerly in the name of an LLC 713.5	Properties in an LLC in the most recent 120-period, as measured backward from the date of the initial application, are not eligible for refinancing into the borrower's name. If there is an outstanding lien against the property, it also must be in the borrower's name for a minimum of 120-days in order to be refinanced.	X	X					
Large Deposit Defined/Funds to Close 712.8	Any single deposit greater than 50% of the qualifying monthly income.					ND		
LP and DU AUS Conflicting Decision 713.4	If a loan is run through both LPA and DU AUS systems and the loan approval decision is opposite from one system to another (i.e. LPA ACCEPT and DU REFER or LPA CAUTION and DU APPROVE), USBHM will only allow the more liberal decision to be used for Salability when the FICO score on the loan is 680 or above and the underwriter conducts a review of the file and can support the decision to approve and document their rationale	X	X					

Topic	Overlay Description							
		Investor					Delivery	
Manufactured Housing 711.13; 712.14; 713.19; 715.13	Not allowed.		X	X	X	X		
Mixed Use/ Eligible Properties 711.12	U.S. Bank does not follow standard FHA guidelines and requires: 1. Business must be legal. 2. Maintain FHA 51% of square footage must be residential. 3. Single family residences only. 4. Must own the business.			ND				
Non-Traditional Credit 711.7; 712.9; 713.9; 715.7	Non-traditional credit not allowed with exception of erroneous or inaccurate credit. If non-traditional credit is used with a manual underwrite: Maximum 36% Debt-to-income ratio and Minimum two months PITIA reserves after closing (or per product guide if greater).	X	X	X	X	X		
PACE Funding 711.6; 712.24; 713.11; 715.6	Not allowed.	X	X	X	X	X		
Recovery Time Periods 713.9.1	Short Sale time frame is from date of title transfer to application date regardless of AUS response.	X	X					
Refinance Loans 711.10	Maximum curtailment \$1000			X		X		
Rental Income on Investment Properties 713.7	o The Borrower must own a Primary Residence to use rental income to qualify when purchasing a new rental property; and o Whether purchasing a new rental property or converting a Primary Residence to a rental property, if the Borrower does not have a minimum of one-year investment property management experience: • The rental income can only offset the principal, interest, taxes and insurance (PITI) of the rental property; and • Rental income exceeding the PITI cannot be added to the Borrower's gross monthly income to qualify		ND					
Schedule E 711.4	Must subtract the full PITIA from the income or loss from the Schedule E to determine final rental income.			ND				
Seasoning/ Eligible Properties 711.12; 712.13; 713.17; 715.12	Cash-out refinance not allowed for subject properties listed for sale by the current owner within 90-days of loan application.	ND	ND	ND	ND	ND		
Seller Seconds 713.11	Seller seconds maximum TLTV is 90%.	X	X					
Sweat Equity 713.8	Sweat equity is NOT an acceptable source of funds.	X	X	X	X	X		
Texas 50(a)(6) 713.17	Limited to 10-acres only.	X	X					
Trusts 711.3; 712.5; 713.5	1. If the property is currently in the name of the borrower Trust the loan may close in the trust as long as the trust meets all USBHM and Agency requirements. To close in the borrower's name, the property title must be in the borrower's name prior to final approval. 2. Attorney Opinion Letter Required for those states that a completed Certification of Revocable Trust is not allowed.	X	X	X		X		
VA IRRRL Transactions 712.12	1. Tri-merged credit report required. 2. Existing loan must be current. 3. 0x30 days delinquent in most recent 12-months. 4. Income source (not amount) is required.					X		
Specific to Mortgage Program/Product Guidelines of Seller Guide including Product Code (Section 500)								
Funds to Close / Reserves	Investment property (subject property), 2-4 unit or condo: borrower(s) must have 6-months PITI in reserves when rental income is used to qualify the borrower(s).	X	X					
Loan Amount	No loans exceeding \$1M.	X	X			X	X	X
Ownership Interest in other properties	When the TLTV >95%, the borrower cannot retain ownership interest in other properties financed by U.S. Bank Home Mortgage.	X	X	X	X			
Property	Each borrower individually, and all borrowers collectively may not own and/or be obligated on more than six (6), 1-4 unit financed properties (including principal residence) if the loan is secured by second home or investment property.	X	X					X
Reserve Requirements: Funds to Close	When the CLTV >95% and there is subordinate financing, the borrower must have a minimum of \$1,000 personal funds into the transaction to be used towards down payment, closing costs, prepaid and/or reserves.	X	X	X	X			
Temporary Buydown Options	Max DTI 43%	X	X	X		X		X
	Not allowed on TX 50 (a) (6)	X	X				X	X
	No Borrower Paid Option	X	X	X		X	X	X
Fannie Mae								
Fannie Mae 3501, 3502, 3503, 3507	LTV/TLTV/HTLTV >95%: 1. Minimum credit score of 680. 2. Max DTI 45%. 3. Purchase transactions only. 4. Subordinate financing must be Community Second loan program, Shared appreciation is Not allowed, and must be listed on U.S. Bank Approved Community Seconds List for Non-Delegated Clients. See subordinate financing section.		X					X
HomeReady 3519	1. LTVs >95%: -Minimum credit score of 680. -Purchase transactions only. 2. Subordinate financing must be an Community Second lien program. 3. No manual underwriting permitted 4. 3-4 units are not allowed.		X				X	X

Topic	Overlay Description	Freddie Mac Fannie Mae FHA USDA VA EZO Product Mandatory						
		Investor				Delivery		
Freddie Mac								
Freddie Mac 3601, 3602, 3604, 3619	LTVs >95%: 1. Minimum credit score of 680. 2. Max DTI 45%. 3. Purchase transactions only. 4. Subordinate financing must be Community Second loan program, Shared appreciation is Not allowed, and must be listed on U.S. Bank Approved Community Seconds List for Non-Delegated Clients. See subordinate financing section. 5. DU not allowed	X					X	X
HomePossible 3687	1. LTVs >95%: -Minimum credit score of 680. -Purchase transactions only. 2. Subordinate financing shared appreciation is not allowed and Community Seconds must be listed on U.S. Bank Approved List for Non-Delegated Clients 3. 2-months reserves on 2-4 unit on LPA Accept for HomePossible only. 4. Temporary buy downs allowed on 1-2-unit purchase, primary transactions only.	X					X	X
Manufactured Housing 3666, 3667, 3668	1. Maximum LTV of 80%. 2. Borrower must have minimum five percent (5%) contribution from the borrower's own funds. 3. No streamline refinance or cash out transactions permitted. 4. Desktop Underwriting (DU) not allowed.	X					X	X
Rate/Term Refinance 3601, 3602, 3604, 3619, 3626, 3627, 3666, 3667, 3668, 3684, 3685, 3686, 3687, 3691, 3371, 3373, 3374, 3379, 3380	Cash back to the borrower is limited to an amount no more than the lesser of 2% of the balance of the new refinance mortgage or \$2,000.	X						X
FHA								
Minimum FICO	640 min FICO (specific criteria may require higher FICO as listed in product guidelines)			X				
Debt-to-Income (DTI)	Maximum 50% - unless DE Lender			X				X
CLTV >100%	Delegated Clients can utilize Community Second programs that meet FHA Guidelines and the following criteria: 1. 45% Max DTI 2. Min FICO 680			X				X
Streamline Refinance	Limited to loans where U.S. Bank is currently servicing the loan to be refinanced unless delegated lender using their own Direct Endorsement (DE).			X				
USDA/RD								
Debt-to-Income (DTI)	Maximum 50%				X			X
Loan Amount	Max loan amount for 15 yr term \$484,350				X			X
Credit/Debt Waivers	U.S Bank does not allow any credit waivers and qualifying ratios cannot be exceeded				X			
VA								
Minimum FICO	640 min FICO (specific criteria may require higher FICO as listed in product guidelines)					X		
Property	No Investment or Second homes if the mortgage being refinanced is not currently serviced by U.S. Bank Home Mortgage.					IRRRL ONLY		
Loan Amount	Max loan amount for 15 yr term \$484,350					X		X
Seller Paying Borrower Debts and Property Gifts	Not allowed.					X		



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