Update #2017-3

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Updates

Unless noted otherwise, the following sections of the Guide have been changed to reflect new policies and guidelines.

Conventional Products

Detached Condominiums
Revised the requirements for condo projects consisting solely of detached single family dwellings (referred to as “site condos”) per Fannie Mae 2016-08. A project review is no longer required when utilizing DU for this type of project. Fannie Mae and Freddie Mac requirements now align with one another.
This change is effective immediately. Guidelines to be published on March 6th.

Solar Panels
Included a reference to the Freddie Mac Selling Guide requirements for leased solar panels, per Freddie Mac Bulletin 2016-20.
This change is effective immediately. Guidelines to be published on March 6th.

Self-Employed VVOE
Updated the guidelines for the verification of the borrower’s business per Freddie Mac Bulletin 2016-19.
The date requirement for the verification to be completed has changed from no more than 30 days prior to the Note date to no more than 120 days prior to the Note date which now aligns with DU.
This change is effective March 6, 2017.
Product Information & Guidelines.Documentation Requirements.a.7.c.
Employment & Income
Revised the Employment and Income section in the guidelines to align with the requirements in Freddie Mac Bulletin 2016-19. To better facilitate the integration of the updated Freddie Mac guidance, additional enhancements were made to improve this section of the guide. The following is a summary of the more significant revisions:

- Table of Contents
  - All Employment and Income topics are listed separately for DU requirements, then followed by LP/LPA requirements. Users will have all specific guidance separated for each AUS type for ease of use. The DU section was reformatted only; no guidelines were changed.
  - Other Income Types: All of the topics have been reformatted and placed in alphabetical order within the individual DU and LP/LPA sections.

- Freddie Mac Employment and Income revisions include but are not limited to the following:
  - Added additional guidance for income stability, history and continuance.
  - Base, Bonus, and Overtime: Included guidance on non-fluctuating and fluctuating earnings.
  - Unreimbursed employee business expenses: Added the flexibility that that business expenses only need to be considered in cases where the expenses are associated with commission income greater than 25%.
  - Projected Income/Future Employment
    - Revised the reserve requirements to include documenting an additional six months cash reserves in addition to the reserves required for the transaction.
    - The start date of employment must be within 60 days of the note date.
    - Added that the VVOE must also indicate that it was verified that the terms of the non-contingent offer letter or employment contract accepted by the borrower have not changed.
  - Rental Income: Added that rental income and expenses reported on IRS Form 8825 may be treated as business income or loss.
  - Self-Employment Income
    - Updated the requirements to reflect that the number of years of required tax returns will be based on the number of years the business has been in existence.
      - Businesses operating for five years or more will require one year of tax returns.
      - Businesses operating for less than five years will require two years of tax returns.
    - Added guidance on review of the business and income analysis, including income fluctuation and adjustments to cash flow.
    - Included requirements for self-employment income not being used in qualifying.
  - Other Income Types
    - In addition to reformatting for ease of reference, more specific guidance has been included on certain topics within this section. See the Guide for more information.

These changes are effective March 6, 2017.
**Assets**
Revised the Assets section of the guidelines to align with Freddie Mac Bulletin 2016-23. To facilitate the integration of the updated Freddie Mac guidance, additional enhancements were made to improve this section of the Guide. The following is a summary of the more significant revisions:

- **Table of Contents**
  - All asset topics are listed separately for DU requirements, then followed by LP/LPA asset requirements. Users will have all specific guidance separated for each AUS type for ease of use.
  - The DU section was reformatted to match the new LP/LPA section.
  - Depository and Non-Depository topics have been placed in alphabetical order within each section.
  - Sourcing large deposits and new accounts has been moved from the Documentation section and listed in each DU or LP/LPA Asset section.
    - Links have been placed in the Documentation section for sourcing large deposits and new accounts to the Assets section where the information is now located.
  - Gifts/Grants have been moved from the Contributions section and listed with the DU/LP-LPA eligible asset sections.

- **Wedding Gifts:** Guidance has been added for both DU and LP/LPA in the Sourcing Large Deposits section.

- **Real Estate Commission from the subject property:** If the borrower is a licensed Real Estate Agent receiving commission from the sale of the subject property, the following requirements apply:
  - DU: The commission due to the borrower may be applied towards closing costs/prepaids and is subject to interested party contributions limits.
  - LP/LPA: The commission due to the borrower may be applied towards downpayment, closing costs/prepaids and must reflect the amount of the borrower’s commission earned as a credit to the transaction on the Closing Disclosure.

- **Freddie Mac Asset updates include more detailed guidance on specific types of assets used towards down payment, closing costs and reserves.**

**These changes are effective March 6, 2017.**
*Product Information & Guidelines. Documentation Requirements. A.2, A.3*

**Comparable Sales - DU**
Aligned the requirements for comparable sales within new projects or subdivisions as announced in Fannie Mae [SEL-2017-01](#). Two pending sales in lieu of one closed sale within the subject’s subdivision or project may be used if closed sales are not yet available. If this option is utilized, the appraiser must also provide at least three closed comparable sales from outside the subject’s subdivision or project. This DU flexibility is listed separately as Freddie Mac’s requirements remain unchanged.

**This change is effective immediately. Guidelines to be published on March 6th.**
*Product Information & Guidelines. Appraisal Guidelines. C.1.b*
All Products

Flood Insurance – Transferred Policies
Updated the guidelines to include that transferred flood policies are acceptable as long as the policy indicates it is transferrable, per Memo #17-02-27.
This change is effective immediately
Product Information & Guidelines.Property Insurance.B.1

Maximum Real Estate Commission Overlay Removal
The overlay maximum real estate commission of 8% was removed for all products.
This requirement has been removed from the guidelines.

Clarifications

Government Products

Third-Party Asset Verification
Clarified that third party asset verifications such as AccountChek are not permitted for all Government Products.

Reminders

Conventional Products

Loan Product Advisor –March 2017 Release
Loan Product Advisor will be updated on March 6, 2017 aligning with the income/asset qualification requirements announced in Freddie Mac Bulletins 2016-19 and 2016-23. See the Loan Product Advisor March 2017 Release – Feedback Messages in conjunction with the updated guidance in the two referenced Bulletins for additional information.

Employment Related Assets/Assets as a Basis for Mortgage Qualification FAQ Document
This document has been revised and is now two separate documents. The DU version is titled FAQ- DU Employment Related Assets as Qualifying Income and the LP/LPA version is titled FAQ-LP/LPA Assets as a Basis for Mortgage Qualification. These versions are located in Helpful Tools/Resources in the Guide.
Conventional Overlay Document
Published a revised Conventional Overlay Document dated 03/2017. It is located in the Guide under the Helpful Tools Section.

Government Products

Government Overlay Document
Published a revised Government Overlay Document dated 03/2017. It is located in the Guide under the Helpful Tools Section.

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