

To: All Customers **From:** Credit Risk
Date: 10/29/20 **Memo #:** 20108
Subject: **Conventional Guide Updates- Income and Property**

The [Conventional Underwriting Guidelines](#) will be updated with the following clarifications and are effective immediately unless otherwise noted.

CASH-OUT REFINANCES

The following clarifications are being made to the eligible borrower requirements for a cash-out transaction:

- The purchase or acquisition of the subject property at least six months prior to the distribution date of the new mortgage loan applies to at least one borrower. This clarification is being added to clarify requirement when multiple borrowers are present on the transaction.
- For cases where the property is held in a Leasehold, at least one borrower must have been a lessee on the lease agreement of the subject leasehold for at least six months.

GIFT OF EQUITY

Clarification is being added that a Gift of Equity may not be used toward financial reserves.

HOME EQUITY LINES OF CREDIT- FREDDIE MAC

Freddie Mac requires HELOC payments to be included in the housing expense-to-income ratio when there is an outstanding balance on the account. In the absence of a monthly payment on the credit report, and if there is no documentation indicating a monthly payment amount, 1.5% of the outstanding balance will be used to determine the qualifying payment.

CONDO ELIGIBILITY

The [Conventional Condominium Guidelines](#) will be updated to address the following clarifications:

- Ineligible condominiums include project subject to recreational leases.
- Minor litigation requirements apply to any project involved in pre-litigation activities such as arbitration or mediation.

Note: Fannie Mae Seller Guides have been updated to include supplemental characteristics to help identify ineligible Condo-Hotel features. While Flagstar utilizes the *Condo Hotel Evaluation Point Scale*, [Doc. #3260](#) to provide guidance for eligibility it is suggested customers review the complete list of characteristics for Fannie Mae eligibility. All Condo-Hotel projects remain subject to approval by our Condo Review Department.

See the [Conventional Underwriting Guidelines](#) for complete details.