



**To:** All Customers **From:** Credit Risk  
**Date:** 08/12/21 **Memo#:** 21108  
**Subject:** **Government Guidelines Updates**

The [FHA Underwriting Guidelines](#), [VA Underwriting Guidelines](#) and [USDA Underwriting Guidelines](#) will be updated with the following changes effective immediately.

The following FHA overlays listed below have been removed and will now follow the guidance from the [FHA Single Family Handbook 4000.1](#).

FHA OVERLAYS REMOVED	
<b>ESCROW CREDIT</b>	Escrow credits are no longer restricted.
<b>GIFT FUNDS</b>	FHA transactions using gift funds are limited to family members, employers and close friends only
<b>INELIGIBLE PROPERTIES</b>	Properties with a PACE lien that will not be paid off prior to or at closing. Note: HERO loans are issued under the PACE financing program.
<b>PROPERTY INSPECTIONS FOR PRESIDENTIALLY DECLARED DISASTER AREAS</b>	If the Streamline refinance pays off any servicer other than Flagstar, an inspection meeting FHA's disaster inspection requirement is required when the loan is cleared to close within 120 days of the disaster inspection.
	Refer to the <i>Flagstar Natural Disaster Policy</i> , <a href="#">Doc. #4915</a> .
<b>PURCHASES OF SHORT SALES</b>	Copy of the fully executed short sale agreement is required
	Must be an arms-length transaction
<b>RECENTLY LISTED PROPERTIES</b>	Cash-out, rate and term and Simple refinance: Property must be off the market at least one day prior to application
<b>HO-6 INSURANCE</b>	Coverage for condominiums and PUDs having any coverage maintained under a master policy must be at least 20% of the property's appraised value or replacement cost.
<b>APPRAISAL MANAGEMENT COMPANIES</b>	If Flagstar will underwrite the loan, appraisals for the following properties must be ordered through a Flagstar approved appraisal management company: <ul style="list-style-type: none"> <li>Borrower is an employee in the sales or production function of any mortgage originating branch or company.</li> <li>Property is a doublewide manufactured home</li> </ul>
<b>ESCROW HOLDBACK REPAIR</b>	One draw only permitted upon completion of repairs

The following VA overlays listed below have been removed and will now follow the guidance from the [VA Lenders Handbook](#).

VA OVERLAYS REMOVED	
<b>POWER OF ATTORNEY</b>	Unless Flagstar has experience with the borrower and can compare the signature to a previous transaction, there must be more than one borrower

	on a transaction with a POA, and at least one borrower must be present at closing.
<b>HO-6 INSURANCE</b>	Coverage for condominiums and PUDs having any coverage maintained under a master policy must be at least 20% of the property's appraised value or replacement cost.
<b>RECENTLY LISTED PROPERTIES</b>	Cash-out, rate and term and Simple refinance: Property must be off the market at least one day prior to application
<b>INELIGIBLE PROPERTIES</b>	Properties with a PACE lien that will not be paid off prior to or at closing. Note: HERO loans are issued under the PACE financing program.
<b>ESCROW HOLDBACK REPAIR</b>	One draw only permitted upon completion of repairs

The following USDA overlays listed below have been removed and will now follow the guidance from the [Guaranteed Loan Program Handbook USDA HB-1-3555](#).

<b>USDA OVERLAYS REMOVED</b>	
<b>PROPERTY INSPECTIONS FOR PRESIDENTIALLY DECLARED DISASTER AREAS</b>	A statement that the subject property has not sustained any flooding and/or damage. If the inspector observes any damage, interior photographs are required.
	A statement on the neighborhood conditions as they relate to flooding and/or damage.
	An exterior photograph of the subject property evidencing no damage.
	Refer to <i>Flagstar Natural Disaster Policy Doc. #4915</i>
<b>REFINANCE TRANSACTIONS</b>	Property inspection to verify the property meets the current property requirements of HUD Handbook 4000.1 required for all Streamline refinance mortgages.
	A property inspection is not required for Streamlined Assist loans
<b>ESCROW HOLDBACK REPAIR</b>	One draw only permitted upon completion of repairs

If you have any questions on the contents on this memo, please email [governmentUW@flagstar.com](mailto:governmentUW@flagstar.com) or call the Underwriting Support Desk at (866) 945-9872

RESOURCES:

- [FHA Single Family Handbook 4000.1](#).
- [VA Lenders Handbook](#)
- [Guaranteed Loan Program Handbook USDA HB-1-3555](#).