



To: All Customers
Date: 01/05/23
Subject: **Conventional Guideline Updates**

From: Credit Policy
Memo #: 23002

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

CASH-OUT REFINANCE SEASONING REQUIREMENT- FREDDIE MAC

The following change is effective for all Wholesale Broker and Non-Delegated Correspondent loans with a Lock Date on or after January 13, 2023.

When proceeds of a cash-out refinance are used to pay off a First Lien Mortgage, the First Lien Mortgage being refinanced must be seasoned for at least 12 months (measured from the Note Date of the Mortgage being refinanced to the Note Date of the cash-out refinance Mortgage), as documented in the mortgage file (e.g., on the credit report or title commitment).

The seasoning requirement does not apply when the First Lien Mortgage being refinanced is a Home Equity Line of Credit (HELOC).

Loan Product Advisor will be updated in the future by Freddie Mac with a new feedback message to support this update.

DELEGATED CORRESPONDENTS

Delegated Correspondent loans not meeting the above requirements must be purchased no later than Friday, January 27, 2023.

The following updates are effective immediately:

BUSINESS ASSETS- FANNIE MAE

For Fannie Mae/DU loans, when using business assets a business cash flow analysis is no longer required when no self-employment income is used to qualify the loan.

GIFT DONOR- FREDDIE MAC

The following have been added as eligible gift donors for Freddie Mac/LPA transactions:

- An unrelated individual with close family-like ties to the borrower is now classified as a related person for guideline purposes.
- An Estate or Trust may provide gift funds or gift of equity when established by a related person. The gift letter must be signed by the trustee or the authorized representative of the estate and indicate the gift funds or gift of equity were provided by a trust established by a related person or an estate of a related person and include the mailing address and telephone number of the trustee or authorized representative

GIFT LETTER- FANNIE MAE

The gift letter may state either the actual amount or the maximum amount of the gift funds in order to reduce the need to obtain a revised gift letter. The final amount of gift funds received must still be documented and reflected accurately on the DU response

EXCLUSION OF PROPERTY RELATED EXPENSES- FREDDIE MAC

When the borrower is on title to a property as an owner (subject property excluded) but is not obligated on the Note, or the property is owned free-and clear, the other property-related expenses (e.g. taxes, insurance, association dues) are not required to be included in the borrower's debt obligations when the following conditions are met:

- a party other than the borrower has been making timely payments for the most recent 12 months, and
- the party making the payments is not an interested party to the subject real estate or mortgage transaction.

APPRAISAL WAIVERS- FANNIE MAE

Properties with deed restrictions which do not restrict the future sales price of the property (e.g. age-related) are now eligible for an appraisal waiver with Fannie Mae. All other properties with resale restrictions remain ineligible for use of an appraisal waiver and require an appraisal

EMPLOYMENT TEMPORARY LEAVE OF ABSENCE

Clarification has been added to address the flexibilities and guidelines for income while on temporary leave does not extend to employer-initiated actions such as furloughs and layoffs. Note that unemployment benefits associated with seasonal employment is not impacted by this clarification and remain eligible when the guidelines are met.

POWER OF ATTORNEY

The following eligibility changes apply to the use of power of Attorneys by the borrower(s):

- POA is now eligible on Investment transactions
- When multiple borrowers are on the transaction, it is no longer required for at least one borrower to be present at closing. If multiple Power of Attorneys are used in the transaction, each POA must meet the guideline requirements.

ENVIRONMENTAL HAZARD ISSUES

The Environment Hazard section has been updated to clarify the requirements when the property is subject to environment risk exposure as follows:

- The appraiser must consider and report the presence of Contaminated Sites or Hazardous Substances and other adverse environmental risk conditions.
 - Appropriate adjustments to reflect any impact on market value, and comment on any effect on the marketability of the subject property must be included in the appraisal.
 - Subject comparable's must contain similar environmental characteristics as the subject to demonstrate common and marketable for the area.
 - In the event a particular environmental hazard has a significant effect on the value of the subject property, although the actual effect is not measurable because the hazard is so serious or so recently discovered that an appraiser cannot arrive at a reliable opinion of market value because there is no comparable market data available, the loan will not be considered eligible.
- Any property made subject to inspections or conditions due to detrimental conditions, evidence of corrective action as called for by the inspector or appraiser must be completed and documented in file (e.g. mold remediation, radon testing, etc.).

- In the event the appraiser notes an environmental risk but is not able to address the condition or notes potential for contamination, Flagstar reserves the right to request a report from a licensed inspector (e.g. well inspection).
- For Condominium and Cooperative Projects, see applicable guidelines for additional requirements.

Environmental risk exposures include but are not limited to:

- Any presence of asbestos, urea-formaldehyde or any similar insulation in the dwelling
- Presence of radon, mold, or other environmental hazards
- Proximity of the property and/or its neighborhood to a Contaminated Site
- Proximity of the property to ground water contamination, chemical or petroleum spills or other Hazardous Substances that are expected to impact the area for more than one year
- Proximity of the property to areas that may affect the value or marketability of the property including, but not limited to, the following:
 - Industrial sites
 - Waste or water treatment facilities
 - Commercial establishments (other than retail establishments that serve the residential neighborhood)
 - Airport approach paths
 - Floodplains
 - Landslide areas
 - Railroads

RESALE RESTRICTIONS WITH COMMUNITY/AFFORDABLE SECONDS USED TO SUBSIDIZE THE SALES PRICE

Clarification has been added to the guidelines to address the requirements when a Community or Affordable Second mortgage is used to subsidize the sales price. The subordinate loan acts as resale restriction by preventing the borrower from selling the property at a profit, or obtaining a cash-out refinance, in lieu of issuing funds to the borrower for down payment or closing costs. Subsidized purchase programs must be approved. Refer to Community Second Program for further details and Flagstar's approved program list.

ADDITIONAL RESOURCES

[Fannie Mae Announcement SEL-2022-10](#)

[Freddie Mac Bulletin 2022-25](#)

Refer to the [Conventional Underwriting Guidelines](#) for complete details which may supersede Fannie Mae and Freddie Mac Seller Guides.

CUSTOMER SUPPORT

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