

Covid-19 Guidance

Due to current market conditions, temporary changes to our employment re-verification process are necessary to manage risk. The changes below apply to all loans underwritten.

Income

Wage Earners

- A Verbal Verification will remain a requirement before docs and at time of funding.
- In those instances where a traditional VVOE is unable to be completed, an email from the employer as an alternative will suffice, with the following restriction.
 - Be from the borrower’s direct Supervisor/Manager or the employer’s HR department and;
 - Contain all the standard information required on a verbal verification of employment, including the name, title, and phone number of the person verifying.
- As an additional step, the following questions must be asked while completing the Verbal Verification of Employment form:
 - Is the company still open and in operation?
 - Is the borrower still employed?
 - Is the borrower on a leave of absence or furloughed?
 - Has the borrower’s income been affected?
- **UPDATE 4.19.21: LSM requires the borrowers most recent paystub or a Written VOE dated within 60 calendar days of the NOTE date.**
 - Underwriter’s will add this as a PTD condition.
 - The most recent paystub or WVOE may be moved to PTF in Dry States
- If the hours worked have been reduced, the reduced hours will be utilized for qualifying purposes.
- If a borrower is on temporary leave, we are unable to proceed until the borrower has returned and received at least one full paystub. The paystub will be analyzed to check for any reduced wages.
- Unemployment Income due to recent events is not an acceptable income source
- These additional steps do not apply to non-credit qualifying FHA Streamline or VA IRRRL transactions

Self Employed – Full Doc Conventional

- An audited year to date profit and loss statement, reporting business revenue, expenses and net income up to and including the most recent month preceding the loan application; or
- An unaudited year to date profit and loss statement signed by the borrower reporting business revenue, expenses and net income up to and including the most recent month preceding the loan application date, and two business (can be comingled personal) depository account(s) statements no older than the latest two months represented on the year to date profit and loss statement.
 - For example, the business depository statement can be no older than May and June for a year to date profit and loss statement through June 30, 2020.
 - **All Loans:**
 - **Require 3 months business bank statements when an unaudited P&L is being used.**

- Evidence business is open and operating within 20 business days prior to the note date.
 - The underwriter will review the two most recent depository account(s) statements to support and/or not to conflict with the information presented in the current year to date profit and loss statement. Otherwise, the underwriter must obtain additional statements or other documentation to support the information from the current year to date profit and loss statement.
 - The signed year-to-date profit and loss statement must be no older than 45 days as of the note date.
- Underwriters must review the profit and loss statement, and business depository accounts, if required, and other relevant factors to determine the extent to which business has been impacted by COVID-19. The underwriter can use the FNMA guidance when performing the assessment of business operations and stability and must complete the business income assessment based on the minimum additional documentation above. In some instances, the underwriter may find it necessary to obtain supplemental documentation.

Self Employed – Full Doc VA

- A signed unaudited year to date profit and loss statement signed by the borrower reporting business revenue, expenses and net income up to and including the most recent month preceding the note date.
- Underwriters must review the profit and loss statement and other relevant factors to determine the extent to which business has been impacted by COVID-19. The underwriter can use the FHA/VA/USDA guidance when performing the assessment of business operations and stability and must complete the business income assessment based on the minimum additional documentation above. In some instances, the underwriter may find it necessary to obtain supplemental documentation.

Self Employed – Full Doc FHA/USDA

- A signed unaudited year to date profit and loss statement signed by the borrower reporting business revenue, expenses and net income up to and including the most recent month preceding the note date.
- Evidence of current work (executed contracts or signed invoices that indicate the business is operating on the day borrower's business is verified.
 - Evidence of current business receipts within 10 days of the note date (payment for services performed)
- Account Manager to certify in writing that the business is open and operating or
- Business website demonstrating activity supporting current business operations (timely appointments for estimates or service can be scheduled)
- Underwriters must review the profit and loss statement and other relevant factors to determine the extent to which business has been impacted by COVID-19. The underwriter can use the FHA/VA/USDA guidance when performing the assessment of business operations and stability and must complete the business income assessment based on the minimum additional documentation above. In some instances, the underwriter may find it necessary to obtain supplemental documentation.

Self Employed- All Products

- **One of the following is required for all Self Employed transactions**
 - **IRS Transcripts directly from the IRS for the years required based on Underwriting guidelines ordered by LoanStream.**
 - **IRS Transcripts directly from the IRS for the years required based on Underwriting guidelines ordered directly by the borrower(s).**
 - **Signed tax returns. Proof of E-File and proof of refund received or evidence amount owed for each applicable tax year clearing borrower(s) account.**
 - **This is an exception only that must be approved by Underwriting Management**

Rental Income Support

- If rental income is being used for qualifying purposes
 - Refinance
 - Copy of current fully executed lease
 - Purchase
 - If the property is not currently rented, utilize the rent from the Appraisal 1007. If the property is currently rented, will need current, fully executed lease and verification of most current 2 months rent received:
 - Can be letter from the seller, as seller is the one receiving rent
 - Rent must be addressed in the purchase contract, is borrower being assigned the lease agreements or are they evicting the tenants. If eviction, utilize the Appraisal 1007.

Rental Income Support-FHA

- Reduce the effective income associated with the calculation of rental income by 25% or
- Verify 6 months PITI in reserves or
- Verify the borrower has received the previous 2 months rental payments as evidence by the borrower's bank statement showing the deposit
 - This option is only applicable for borrowers with a history of rental income from the property

Forbearance-Conventional Loans

Borrowers who are currently or have been in forbearance, are acceptable in certain cases:

- The borrower(s) must provide a copy of the forbearance agreement and documentation of which method was used to bring the loan current.
- Borrower(s) must be current on all mortgages for all properties owned through the month of closing.
- Borrower(s) must document that they have been removed from forbearance on any mortgage loan, including our subject and any other property.
- If the borrower(s) brought the loan current through re-instatement (payment in full of the deferred amount).
- If the re-instatement was completed after the application date on our subject, the source of funds must be documented.
- Borrower(s) who were unable to bring their forbearance current through re-instatement and used one of the following methods (this applies to all properties owned), may be eligible if they

have made a minimum of 3 timely payments from the date of the repayment plan/agreement. Payments may not be made in advance of the due dates.

- Repayment Plan
- Modification Agreement (except those that qualify per our Modification guides)
- Payment Deferral
- Copy of of the repayment plan, payment deferral agreement or modification is required.
- **Proceeds from the SBA Paycheck Protection Program (PPP) or any other similar COVID-19 related loan(s) or grants are not considered business or personal assets and are ineligible for Down Payment, Closing Costs or Reserves**
- **Paycheck Protection Program loans do not need to be included in qualifying, unless the loan is in the repayment period.**

Forbearance-FHA & USDA Loans(all financed properties)

- **Borrower(s) who have been granted a Mortgage Payment Forbearance is eligible for a new FHA insured mortgage provided:**
 - **The borrower continues to make regularly scheduled payments and the Forbearance Plan is terminated, or**
 - **For Cash Out refinances, the borrower has completed the Forbearance Plan and made at least 12 consecutive monthly payments post forbearance; or**
 - **For Purchase and No Cash Out Refinances, the borrower has completed the Forbearance Plan and made at least three consecutive monthly payments post forbearance; or**
 - **For Credit Qualifying Streamline refinance, the borrower has completed the Forbearance Plan and made less than three consecutive monthly payments post forbearance; and**
 - **For all Streamline refinance transactions, the borrower has made at least six payments on the FHA-Insured mortgage being refinanced (where the FHA insured Mortgage has been modified after forbearance, the Borrower must have made at least six payments under the Modification).**
 - **Any Borrower who is granted a forbearance and is otherwise performing under the terms of the Forbearance Plan (paid as agreed), is not considered to be delinquent for purposes of credit underwriting and is not required to be downgraded to a refer provided the Forbearance Plan is terminated prior to docs.**
- **For all Streamline Refinance transactions, a copy of the Modification or Forbearance Agreement is required**
 - **A minimum of three consecutive monthly payments under the Forbearance Agreement within the month due must have occurred to be eligible for financing for all Non Credit Qualifying Streamlines**
 - **A minimum of six consecutive monthly payments under the Modification Agreement within the month due must have occurred to be eligible for financing for all Non Credit Qualifying Streamlines**
 - **A minimum of six consecutive months payments within the month due must have occurred to be eligible for financing for all Credit Qualifying Streamlines**

- Suspended mortgage payments resulting from a payment forbearance will be included as part of the outstanding principal balance and the interest due amount report on the payoff statement and are eligible to be included in the new refinance mortgage provided the maximum mortgage amount for the applicable refinance type is not exceeded
- Pay History remains the same
 - 0x30 in the six months preceding the case assignment date
 - 1x30 in months 7-12 preceding the case assignment date
- Missed payments do not count toward the minimum six payments that are required for producing seasoning
- For Purchase and Rate & Term Refinances, loans must be downgraded to a refer and manually underwritten if any of the below occurs during the 12 months prior to the case assignment date:
 - 3x30 or greater
 - 1x60 or greater plus 1x30 or greater
 - 1x90
 - Borrower has made less than 3 consecutive payments since completion of a mortgage forbearance plan
 - A copy of any applicable Modification or Forbearance Agreement is required
 - A minimum of 6 payments under the Modification Agreement must occur for all Rate and Term refinances
 - A copy of the pay history from either the forbearance or modification is required
- For Cash Out Refinances, loans must be downgraded to a refer and manually underwritten if any of the below occurs during the 12 months prior to the case assignment date:
 - 1x30 or greater
 - Less than 12 consecutive monthly payments since completion of a mortgage forbearance
 - A copy of any applicable Modification or Forbearance Agreement is required
 - A copy of the pay history from either the forbearance or modification is required

Forebearance- VA Purchase and Rate and term refinances

- A Cares Act forbearance should not be used as a reason to deny a borrower a loan. In such cases, borrowers must provide reasons for the loan delinquency and evidence to establish that the cause of the delinquency has been corrected.
- A borrower is not considered an unsatisfactory credit risk based solely on if the borrower has received some type of credit forbearance or deferred payment during COVID-19
- A copy of the Forbearance or Modification Agreement is required
- A copy of the pay history from either the forbearance or modification is required
- The Veteran must document they are no longer in forbearance

Forebearance- VA IRRRLs

- The Veteran must document they are no longer in forbearance AND are no longer experiencing financial hardship caused by COVID-19 (without documenting income)
- The borrower qualifies for the IRRRL standard program requirements

- **Standard VA guidelines should be used to determine the maximum loan amount for IRRRLS. IRRRLS may include:**
 - **Past due payments, including payments deferred under a Cares Act forbearance**
 - **Allowable late charges consistent with the Note, Cares Act, and applicable laws**
- **Periods of forbearance cannot be considered to meet loan seasoning requirements, but forbearance does not cause the loan to not meet seasoning requirements. If a loan being refinanced met seasoning requirements before a borrower entered a CARES Act forbearance, the seasoning requirements is satisfied.**
- **A loan being refinanced is is seasoned if the following are met when the loan closes:**
 - **The borrower has made at least six consecutive monthly payments on the loan being refinanced.**
 - **Example: In the case where a borrower made five consecutive payments before invoking a CARES Act forbearance, such borrower would need to make six additional consecutive payments, post forbearance, in order to meet the seasoning requirement.**

Temporary Appraisal Guidance-Conventional Loans

A Drive by Appraisal is acceptable if the loan fits within the below metrics:

- Purchases- LTV equal to or less than 85% for all occupancy types
- Limited Cash Out refinances-If existing loan is **owned** by either FNMA or FHLMC
 - Loans not owned by either FNMA or FHLMC must have a full appraisal
- Cash Out refinances- ineligible, must have a full appraisal
- **Exterior only appraisals must be on the following forms only**
 - **2055, 1075 for Condos, 1025 for Units, 1004MC for MFG Homes.**
- **Desktop Appraisals are only allowed on Purchase transactions and must be on form 1004, 1073 for Condos, 1025 for Units and 1004MC for MFG Homes.**
- **DU/LPA should provide a message if the property is either FNMA or FHLMC owned.**
- Below are both FNMA and FHLMC owned loans - look up tools
 - <https://www.knowyouroptions.com/loanlookup>
 - <https://ww3.freddie.mac.com/loanlookup/>

Appraisal Guidance-FHA/VA/USDA Loans

FHA/USDA:

- Exterior only appraisals are eligible on Purchase and Rate and Term refinance transactions
- Full Appraisals are required on all Cash out transactions
- 1004D- With the exclusion of New Construction transactions, LoanStream will permit a letter signed by the borrower confirming that the work was completed along with photographs of the completed work, paid invoices indicating completion, occupancy permits, or other substantially similar documentation.

VA:

- Use of an Exterior appraisal is limited to the maximum 2020 FHLMC Conforming Loan Limit for a one unit property the county area.

- Appraiser must state on page 1 of the appraiser report under Map Reference, whether the report was completed as an Exterior Only or Desktop. Appraisers must boldly and inconspicuously state “Per Department of Veterans Affairs, no interior inspection was provided due to COVID-19.”
 - A Full Appraisal is still required when:
 - **VA Purchase Transaction** on a Vacant Property, when the appraiser’s assigned geographic jurisdiction does not have restrictions imposed by authorities prohibiting individuals from leaving their home.
 - **VA Purchase or Refinance Transaction** on a borrower occupied property, when the appraiser’s assigned geographic jurisdiction does not have restrictions imposed by authorities prohibiting individuals from leaving their home. As long as the following criteria is met:
 - Either party has not been instructed by health authorities to stay home or practice social distancing or
 - Does not have flulike symptoms or
 - Has not been quarantined under direction of public health authorities and
 - No parties are within the CDC guidance of high risk
- A 1004D is required for all requested repairs.
- All NOV conditions must be cleared prior to closing.

Age of Documentation- Conventional Products

Age of documentation

Effective: These policies became effective for loans with application dates on or after Apr. 14, 2020 and are effective until further notice.

In order to ensure that the most up-to-date information is being considered to support the borrower’s ability to repay, we are updating our age of documentation requirements for all loans (existing and new construction) as follows:

- We are modifying age of document requirements from four months (120 days) to two months (60 days) for most income and asset documentation. If an asset account is reported on a quarterly basis, the lender must obtain the most recently issued quarterly statement.
- When the lender receives employment and income verification directly from a third-party employment verification vendor, we are now requiring that the information in the vendor’s database be no more than 60 days old as of the note date.
- There are no changes to the age of documentation requirements for military income documented using a Leave and Earnings Statement, Social Security, retirement income, long-term disability, mortgage credit certificates, public assistance, foster care, or royalty payments, and the lender can continue to apply standard age of document requirements as stated in the *Selling Guide*.
 - For quarterly statements, the most recent quarterly statement is required
 - Expiration dates for credit, title, appraisals and other documents remain unchanged.



COVID-19 Temporary Guidance

Age of Documentation-FHA/VA/USDA Products

- Remain unchanged
- As a reminder, we already require the most recent paystub, Written VOE (within 15 calendar days of note date) or YTD P&L (within 45 of note date). We also already require an independently verified VVOE before docs and at time of funding, including verification that any self-employed business is open and operating. Any change in status or income, the loan must be sent back to underwriting.

COVID-19 Borrower Certification:

- We have implemented a certification form where borrowers must attest to ability to repay prior to funding. This is required to be executed by all borrowers on a transaction. Funding will not commence otherwise. Funders will be required to review all answers. Any negative answers will require the funding be held and the loan go back to underwriting.