May 22, 2020

We all need to give our processors, compliance staff, underwriters, closers and post closers a big THANK YOU for doing an amazing job in keeping our queues updated, I was impressed on how clear they were this morning.

All the agencies have come out with temporarily alternate options for appraisals and verifications of employment, so we wanted update you on what can and can't be done. Since our original memo on Monday, March 31, several more updates have come out. Updates to each section are listed in **RED.**

Appraisals: We must attempt to get the full required appraisal that the program calls for but if the buyer or seller refuses entry we can accept the following options:

- FHA (purchase and rate and term refinances) and conventional (purchase only) if the home is **not vacant,** we can accept a desktop appraisal on the normal appraisal form.
- USDA (purchase and refinance) and conventional (rate and term refinances where the note is currently owned by Fannie or Freddie) we can accept a drive-by 2055 appraisal.
- FHA (Cash out refinances, 203(k) purchases) Conventional (Cash out or a rate and term not currently owned by Fannie or Freddie), New Construction, Construction to Permanent, and Building on Own Lands **we need the full interior/exterior appraisal** and cannot accept an alternate product.
- VA just order the normal appraisal product; they have instructed its appraisers when they can utilize a desktop appraisal.
- Final inspections we will permit a letter signed by the borrower affirming that the work was completed with further evidence of completion, which may include photographs of the completed work, paid invoices indicating completion, occupancy permits, or other substantially similar documentation.

When ordering an appraisal just request the standard product for the loan type, the Appraisal Department has a process in place if they are made aware of an access issue. If you are aware of a concern with access to the property add a note to the order or contact Ric at 616.262.6085.

Tax Transcripts: The IRS is not currently processing Tax Transcripts:

- Temporarily we can waive this requirement and close without transcripts on Conventional, FHA, VA and Bond loans.
- USDA loans, investors are still requiring transcripts. We will update you as we receive notification of any changes. Effective immediately, transcripts from DataVerify will not be required to close a USDA loan, and USDA's requirements for when tax transcripts are not available will be able to be followed. It will be up to VDM Underwriter discretion if borrower provided transcripts will be required, if there is any question as to documentation provided for qualifying or household income.
- For all loans where tax returns are required to qualify and the returns show a balance was due, we need evidence in our loan file documenting the taxes were paid. We can accept a cancelled check, the bank statement showing the transaction to the IRS or a borrower provided record of account transcript showing a $0 balance.
- If you are using 2019 tax returns to qualify and a balance is due, the borrower must document sufficient funds are available to pay the balance, in addition to down payment, closing cost and reserve requirements. This will be acceptable through the extended July filing date.

Income and Employment Verifications: All agencies are requiring the lender to do its due diligence with verifying employment and confirming borrowers have stable income in order to make their payments. Given the instability of the economy right now due to the COVID-19 pandemic we will be handling verifications of employment as follows ***effective for all closings on or after 4/1***:

- Final Verbals: all final verbal verifications of employment will need to be completed within 2 business days of closing. When verbal verification cannot be completed due to Covid-19 closures alternative documentation will be accepted per the agency guidelines.
- There will be a new disclosure included in all closing packages for borrowers to attest that their income and employment is still consistent with what is stated on the final loan application signed at closing.
- Income verifications: Effective immediately, borrowers working in a job or field that is deemed to be non-essential, we will be requiring verification of the most recent payroll deposit to show that the income used for qualification is still being received. Borrowers working reduced hours, temporary furloughed or have had their employment suspended will need to qualify with that agency's guidance for temporary income (guidelines attached). Self-employed borrowers will be evaluated on a case by case basis. **We cannot close a loan for a borrower who is not employed and not receiving any income.**
- For borrowers receiving interim unemployment please refer to guidelines pertaining to Temporary Income (attached). These are agency specific so make sure you refer to the guidelines applicable to your loan type
- Most Bond Authorities are requiring that the borrowers are still actively employed and earning the income used for qualification at the time of closing, there is no acceptance for temporary reduction of income.
- All income AND asset documentation must be within 60 days of the date of the note; all "Market-based assets" will require a valuation of 70% when used for reserves, and liquidation will be required for any instance where these funds are required for down payment or closing costs.
  - Per the most recent DU update, all third-party verifications must be dated within 30 days of the note date. This guidance is effective with new DU casefiles as of 4/18/20.
- All agencies have sent out guidance advising lenders to do additional due diligence for self-employed borrowers. We will be requiring demonstration that businesses are open and operating, and still earning income. Suggestions for how this can be documented:
  - Evidence of current work such as executed contracts or signed invoices that indicate the business is operating on the day the lender verifies self-employment
  - Evidence of current business receipts within 10 days of the note date such as payment for services performed
  - Other lender certification that the business is open and operation (such as a phone call to the business) or website demonstrating the activity supporting current business operations (timely appointments for estimate or services can be scheduled)

FHA Minimum Credit Scores and DTI: Most of our investors have temporarily pulled out of buying FHA loans with credit scores under 640. Due to limited resources for this product we need to update our guidelines effective with loans locked on or after March 31, 2020.

- FHA loans with a qualifying credit score less than 640 will need the to meet the following DTI and reserve requirements:
  - Up to 43% DTI: 1 month's reserves
  - 43.01% – 47%: 3 months reserves
  - 47.01% - 50.00%: 3 months reserves and 1 additional compensating factor
  - 50.01%+: Not eligible
- FHA loans with qualifying credit score less than 640 will no longer be eligible for manual underwriting. This is effective for new locks on or after April 6, 2020.

As a reminder, reserves cannot come from a gift, they must be from the borrower's own savings. All files regardless of DTI and credit score are subject to due diligence underwriting.

"No Score" Loans – effective 5/14 with the publishing of the May 2019 Lending Announcement, VanDyk Mortgage is no longer offering any government loans that have to be underwritten according to "No Score" requirements

Forbearances – VDM Policy and Procedures: Forbearance indicates financial hardship, which in turn requires us to further assess the borrower's ability to repay, as well as the impact on how ending a forbearance on a credit account will impact the borrower's monthly payments or asset reserves. Therefore, a letter of explanation will be required from the borrower addressing how they have recovered from the "financial hardship" on any file that indicates anything other than a student loan is in forbearance. Additionally, the guidance below must be met.

Mortgages - VanDyk Mortgage cannot approve an application for purchase or refinance transactions where the borrower currently has mortgages, and any of those are in forbearance at the time of closing. Due to the rapidly changing circumstances for borrowers and how quickly information on a credit report can be aged since reports are good for 120 days, effective with all loans closing on or after 5/1/20, all mortgage accounts on a borrower's credit must be re-verified with any of the following documentation as follows ***no more than 7 BUSINESS days prior to closing***:

- Credit supplement showing that the account status is still in repayment ← current requirement/still OK
- The following are acceptable alternatives to the COVID Supplement for **loans closing after 6/1**:
  - Loans funding between the 1st and the 15th of the month may be documented with ALL three of the following documentation:
    - Supplement updating/verifying the *payment history* on the account(s) is current through month of funding ← this is the standard "VOM" supplement we have always obtained pre-Covid, so for example if you are funding 6/1 – 6/15 the current mortgage(s) must show the payment due for June or after
    - The most recent mortgage statement for all mortgage accounts on the credit report
      - The payoff is acceptable alternative documentation for any mortgages to be paid off through closing
    - Signed statement from the borrower that the mortgage account(s) are not in forbearance/deferment status
  - Loans funding between the 16th and the end of the month may be documented with ALL three of the following documentation:
    - Supplement updating/verifying the *payment history* on the account(s) is paid for the current month of funding, due for the next month following funding ← this is the standard "VOM" supplement we have always obtained pre-Covid, however we will be looking for the next payment due date to show the following month. So for example, if you are funding in June, the supplement will need to verify the next payment due date is July or after
    - The most recent mortgage statement for all mortgage accounts on the credit report
      - The payoff is acceptable alternative documentation for any mortgages to be paid off through closing
    - Signed statement from the borrower that the mortgage account(s) are not in forbearance/deferment status
- *****NOTE: IF ANY NON-STUDENT LOAN ACCOUNT ON THE BORROWER'S CREDIT SHOWS AS FORBEARANCE/DEFERMENT/NATURAL OR DECLARED DISASTER – WE WILL REQUIRE ALL MORTGAGE ACCOUNTS TO HAVE THE REPAYMENT/FORBEARANCE STATUS INFORMATION SUPPLEMENTED 7 BUSINESS DAYS PRIOR TO CLOSING, NO ALTERNATIVES WILL BE ACCEPTED*****

Procedurally, the loans will be handled as followed:

- Branch/Processor will resubmit with all documentation to clear the "COVID-19 Mortgage History VOM" condition when sending the loan to UW for final resub review and Clear to Close. **To avoid confusion between processing, underwriting and closing, loans closing on/after 6/1 will no longer be moved to the approval milestone pending this documentation.**
- The loan condition called "1100 Credit: COVID-19 Mortgage History VOM" will be updated to reflect this new guidance
- This applies to all mortgage accounts on the borrower's credit report; if any account is listed as in forbearance/deferment/natural disaster then the loan will not be eligible and will be returned to conditional approval

Credit accounts that are non-student loans – For ***any*** account (mortgage, revolving, installment, open, etc.) listed in forbearance, the account must be taken out for forbearance and verified by SARMA or Credit Plus, as well as the terms of the forbearance agreement before the loan will be approved.

- The forbearance agreement will need to indicate what the terms of ending to forbearance will be, if the payments skipped will have to be paid in full, if the term will be extended, etc.
- A supplement from the SARMA or Credit Plus verifying that the account is no longer in forbearance
- Letter of explanation will be required from the borrower addressing how they have recovered from the "financial hardship" on any file that indicates anything other than a student loan is in forbearance

The following Secondary policies will also be put into place to align with Fannie Mae and Freddie Mac's post-closing policies for new loans going into forbearance after our closing:

- Interest credits will no longer be permitted effective for closings on or after May 1st, 2020.
- For any loan where a borrower requests forbearance and the loan become ineligible for sale on the secondary market, the EPO Commission Policy will take effect and all commissions paid will be forfeited/repaid. This policy will begin being enforced for closings Monday, April 27th, 2020.
- Effective immediately, a -1.000 loan level price adjuster added for Conventional Cash-Out transactions.

REV: 5/22/20