VanDyk Mortgage Corporation
Est. 1987 NMLS #3035

November 19, 2020

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 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 processing transcripts requests. For all loans closing on or after 9/1/2020, transcripts will be required per regular pre-covid VDM requirements. Refer to the Tax Transcript Cheat Sheet attached.

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 5 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: We will no longer require the most recent paystub for "non-essential" workers. Any borrower who was out of work and we are using re-established earnings must have a minimum of a 30 days history; this is particularly important for borrowers earning variable types of income such as non-salaried wage earners, and commission, tip or bonus income. The most recent paystub prior to closing will be required to document the re-established earnings used to qualify are still supported.
- **We cannot close a loan for a borrower who is currently furloughed and not employed and not receiving any income.**

- Most Bond Authorities are requiring that the borrowers be 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.
- Self-Employed Borrowers: As of June 2020 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 that YTD income supports qualifying income as reported on prior years' tax returns and analyzed with the cash-flow analysis. The following documentation is currently required for all loans with self-employed borrowers:
  - Income Verification:
    - 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 date; 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 effective with new submissions to underwriting on or after 12/14/20; Three (3) months business depository account(s) statements no older than the latest three months represented on the year-to-date profit and loss statement.
      - For example, the business depository account statements can be no older than March, April and May for a year-to-date profit and loss statement dated through May 31, 2020 for applications dated June 1 – June 30.
      - The lender must review the three most recent depository account statements to support and/or not conflict with the information presented in the current year-to-date profit and loss statement. Otherwise, the lender must obtain additional statements or other documentation to support the information from the current year-to-date profit and loss statement.
    - If 2019 returns are still on extension, a P&L for the 2019 tax year will also be required.
    - Updated Conditions have been added to the 1100: Credit COVID-19 section for the 2019 P&L and the YTD P&L, which will be added to the approvals as necessary.
    - P&Ls and supporting documentation (ie business bank statements) must follow the same age of documentation requirements and be no older than 60 days at the time of closing
  - Final Verbal Verification:
    - 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)

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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:

- Credit supplement showing that the account status is still in repayment ← current requirement/still OK
- The following are acceptable alternatives to the COVID Supplement REGARDLESS OF FUNDING DATE:
  - One of the following:
    - Supplement updating/verifying the payment history on the account(s) is current through month of funding (for all mortgages on the credit report), or
    - If the DLA on the Credit Report is within 60 days of the month of closing, you may utilize the most recent Mortgage Statement(s) as an alternative to having the Credit Report Supplement. EX: Credit Report has DLA of 7/2020 and loan is closing/funding in 9/2020 AND Mortgage Statement shows due for August or September Payment, or
    - If the DLA on the Credit Report is within 60 days of the month of closing the payoff showing current payment due for any mortgage(s) to be paid off through closing,
  - AND A 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

Secondary Updates: The following policies have been 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 be permitted through the 5th of the month.
- 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.
- On 8/12/2020, both Fannie Mae and Freddie Mac announced they will be implementing a 50 basis point adjustment for all refinance transactions delivered on or after 9/1/2020. In May of 2020, we implemented a purchase incentive pricing adjuster of +0.750. We are going to be aligning refinance and purchase margins, effective today, in order to help offset this new agency adverse market fee. What this means is refinance transactions will now price the same as purchase transactions less the new 50 bps adverse market refinance adjuster above. You will no longer see a sperate +.75 purchase incentive as it is now part of the normal rate set applying to all conventional transactions.

REV: 11/19/2020