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## CREDIT POLICY UPDATES

### **LPA AUTOMATED INCOME & ASSET ASSESSMENT**

Effective Date: See below.

Per Freddie Mac 2018-23, Citi will accept LPA automated income and asset assessments effective with LPA submissions and resubmissions run on/after December 9, 2018. See the updated Asset Documentation topic in the applicable manual section for complete details.

In addition, UCDP Feedback messaging for Freddie Mac's Collateral Relief feature has been updated to include a new code—*FRE40000*. Either code may be received in Feedback Messaging to indicate the appraisal is eligible for collateral rep and warrant relief. There is no required delivery date for the loans that reflect FRE0000. This update is effective with loans registered on/after 10/31/18.

Manual Section(s) Affected: 235, 407, 414

### **DU RATIO TOLERANCE**

Effective Date: December 9, 2018; New Registrations and Existing Pipeline

Per Fannie Mae 2018-09, Fannie Mae's requirements for resubmitting the loan to DU changed with the release of DU 10.3. Policy as been updated as follows (italicized text represents changes).

**If any of the following changes occur after the loan has been submitted to DU:**

- The interest rate increases;
- *There are discrepancies between the credit report payments and balances and those listed on the online loan application, including the presence of debt that is on the credit report but not on the application;*
- *There are additional debt(s) disclosed by the borrower or identified by the lender during the mortgage process;*
- *The verified income is less than the income on the loan application that was submitted to DU.*

**And the result of these change(s) cause the DTI ratio recalculated by the lender to:**

- *Exceed **45%**; or*
- *Increase by 3 percentage points or more (if the recalculated DTI ratio is **45% or less**)*

**The loan must be resubmitted to DU.** (Previously the recalculated DTI was not to exceed 50%).

Manual Section(s) Affected: 406

### **NON-REIMBURSED BUSINESS EXPENSES: DU TRANSACTIONS**

Fannie Mae Selling Guide Announcement 2018-09 outlined changes in the treatment of commission income and Unreimbursed Business Expenses to align with recent tax law changes. As a result, we have updated the Non-Reimbursed Business Expenses policy to allow loans decisioned via DU to follow the DU recommendation when the loan receives an Approve/Eligible recommendation.

Manual Section(s) Affected: 804

## ***RENTAL INCOME REQUIREMENTS***

Effective Date: January 27, 2019; New Registrations

Per Freddie Mac 2018-19, the ability to use rental income to qualify has been updated for loans decisioned via LPA and loans manually underwritten:

- Borrower must own a primary residence in order to use rental income to qualify when purchasing a new rental property in the current calendar year;
- Whether purchasing a new rental property in the current calendar year or converting a Primary Residence to a rental property, if the Borrower does not have a minimum of one-year investment property management experience, then:
  - The rental income from converting the borrower's primary residence can only offset the principal, interest, taxes and insurance (PITI) of the rental property;
  - Rental income from a new rental property or a converted primary residence exceeding the PITI cannot be added to the Borrower's gross monthly income to qualify unless the file documentation demonstrates the borrower has a minimum of one-year investment property management experience.

Additionally, only the Borrower's most recent federal income tax return is required. Rental income must be annualized unless there is documented evidence in the Mortgage file showing that the property was renovated or purchased late in the prior calendar year.

Citi will accept loan file submissions based on the rental income requirements:

- In effect prior to Bulletin 2017-12 in their entirety;
- The revised rental income requirements announced in Bulletin 2017-12 in their entirety (and for which the effective date was extended in Bulletins 2018-1 and 2018-13); or
- The revised rental income requirements in the March 1, 2019 version of Guide Section 5306.1 in their entirety.

According to Freddie Mac requirements, loans with settlement dates on and after March 1, 2019, must meet the rental income requirements in the March 1, 2019 version of Section 5306.1. Loan Product Advisor® feedback messages will be updated by March 1, 2019 to reflect these changes.

Finally, in Freddie Mac Bulletin 2018-13, Form 92 Net Rental Income Calculation-Schedule E was introduced. Use of Form 91 will be limited to self-employed income only. References to Form 91 in Rental Income topics have been replaced with Form 92.

Manual Section(s) Affected: 805.3

## ***VERBAL VOES FOR UNION WORKERS***

Effective Date: December 5, 2018; New Registrations and Existing Pipeline

Per Freddie Mac 2018-24, additional guidance on verbal VOE requirements addressing union members has been added to policy as follows.

**Union Workers:** If the union facilitates the borrower's placement in each assignment and it is determined that the Borrower's employment and income history is stable, the verbal VOE may be obtained directly from the individuals' union. This is applicable to both individuals who are employed at the time of closing, as well as those who are in between employers at the time of closing.

Manual Section(s) Affected: 805.1

## ***MASTER INSURANCE POLICIES FOR UNAFFILIATED PROJECTS***

Effective Date: December 5, 2018; New Registrations and Existing Pipeline

Previous Freddie Mac policy stated a Mortgage is not eligible for sale to Freddie Mac if the Mortgage is secured by a Condominium Unit in a Condominium Project or by a unit in a Planned Unit Development (PUD) with a master or blanket insurance policy that combines insurance coverage for multiple unaffiliated Condominium Projects or PUDs.

With the release of Freddie Mac Bulletin 2018-23, policy was aligned with current Fannie Mae policy; therefore, Citi policy has been amended as summarized below. See the manual section for complete details.

Mortgages secured by a Condominium Unit in a Project with a master or blanket insurance policy that combines insurance coverage for multiple unaffiliated Condominium Projects are eligible for sale provided that each covered Condominium Project has a dedicated policy limit and a specific dedicated deductible that does not exceed the requirements listed.

Manual Section(s) Affected: 608

## **CLARIFICATIONS**

### ***FLOOD INSURANCE REQUIREMENTS***

Clarification has been added to minimum flood insurance coverage requirements to state that if the coverage amount is being based on the unpaid principal balance of the mortgage, coverage is only required to cover the new first loan unless there is a Citi subordinate lien. In that case, the flood insurance coverage amount must cover both loans.

### ***LENDER PAID ASSISTANCE***

Policy addressing Lender Paid Assistance has been clarified as follows:

Lender-Paid Assistance (LPA), which is financial assistance in the form of a non-repayable credit provided by a lender that is to be applied toward the borrower's closing costs only, may not be used to make any part of the borrower's down payment, meet financial reserve requirements or meet minimum borrower contributions. Additionally, Lender-Paid Assistance is not subject to the Interested Party Contributions (IPC) limitations as long as the lender is not the property seller or affiliated with an interested party to the transaction.

With the above clarification, LPA references in the Interested Party Contribution section have been updated to align policy and eliminate confusion.

Manual Section(s) Affected: 806.2, 806.4

### ***DEED RESTRICTED PROPERTIES: REVIEW REQUIREMENTS***

Clarification has been added to the Deed Restricted property fact sheet to address *who* is responsible for determining the borrower's eligibility.

Citi reviews all Deed Restricted Properties for general compliance with Agency guidelines; however, Citi is *not* the creditor for these programs. The Deed Restriction sponsor or organization imposing the restriction is responsible for reviewing the borrower's eligibility and will approve or decline the borrower based on their (the creditor's) program guidelines. Eligible borrowers must satisfy the specific eligibility criteria established by the Creditor. If the borrower's income limits differ from the Creditor's eligibility requirements and the first mortgage program income limit guidelines, the more restrictive of the income limits shall apply.

Manual Section(s) Affected: 808.2, 808.3

## FHA & VA LOANS

Additional verbiage has been added to FHA and VA fact sheets for clarification as indicated below.

- Verbiage has been added to reflect that loans are assumable.
- Per Circular 26-18-29, the VA Fixed/ARM section has been updated to reflect that effective 12/11/18, Form 1004MC is no longer required; however, the market trend information is still required within the appraisal report.
- The following verbiage has been added to FHA Streamline/Current Mortgage topic:

All loans pooled on or after 4/01/18 must meet the below requirements per GNMA APM 17-06:

- The borrower made at least 6 consecutive monthly payments on the loan being refinanced (initial loan), beginning with the payment made on the first payment due date; and
- The first payment due date of the refinance loan occurs no earlier than 210 days after the first payment date on the initial loan.

Manual Section(s) Affected: 271, 275, 276

## NOTICES

### 2019 HOLIDAY SCHEDULE

Citi Correspondent Lending observes all banking holidays. Our 2019 holiday schedule is shown below. Generally, all support areas will be closed on these holidays; however our website is always available for loan registration, pipeline management and credit policy/guidance reference material. Individual reminders are sent prior to the holiday regarding any business closure and/or resource availability adjustments.

HOLIDAY	DAY OBSERVED IN 2019
New Year's Day	Tuesday, January 1
Martin Luther King, Jr. Day	Monday, January 21
Presidents' Day	Monday, February 18
Memorial Day	Monday, May 27
Independence Day	Thursday, July 4
Labor Day	Monday, September 2
Columbus Day	Monday, October 14
Veterans' Day	Monday, November 11
Thanksgiving Day	Thursday, November 28
Christmas Day	Wednesday, December 25

Manual Section(s) Affected: 103

## REMINDERS

### TRANSITION TO SUBSERVICER

As announced in Bulletins 2018-10 and 2018-13, Citi began leveraging a servicer, Cenlar, effective with conventional loans purchased on/after November 1, 2018.

As a reminder, the next group of loans (FHA and VA loans) will be transitioning soon. FHA and VA loans purchased on/after February 2, 2019 will be sub-serviced by Cenlar.

## LOAN PURCHASES - 2/14/19

As communicated in Bulletin 2019-01, in order to allow Correspondents to meet the required 15 day advance notice to borrowers of the transfer of servicing effective date, **Citi will not purchase loans on Thursday, February 14, 2019.** Per Section 1003 of the Citi Correspondent Manual, the first payment due Citi (Effective Date of Transfer) for loans purchased between the 1st and 14th of the month would be on the first day of the following month. Thus if a loan were to be purchased on February 14<sup>th</sup>, transfer of servicing would become effective March 1st, allowing for only a 14 day notice window.

For loans cleared and eligible for purchase on February 14th, days interest and days late fees will be calculated based on a purchase date of February 14th at no penalty to the lender.

## MISCELLANEOUS UPDATES

- **601-Condo Projects:** With Freddie Mac Bulletin 2018-18, Freddie policy regarding project approval for 2-4 unit condo projects aligned with Fannie Mae policy. Citi policy has been updated to reflect this.
- **233-HomeReady & 235-Home Possible:** General edits have been made to the Income Limits/Requirements topic in these sections for clarification purposes only.

## MANUAL SECTIONS UPDATED

233	HomeReady
103	Holiday Schedule
235	Home Possible
270	FHA Fixed and ARM
271	VA Fixed and ARM
275	FHA Streamline Refi
276	VA IRRRL

406	Desktop Underwriter
407	Loan Prospector
414	LP for Agency Jumbo
601	Citi Project Approval
608	Insurance Requirements
804	Liabilities/Ratios
805.1	Income-Wage Earner

805.3	Income-Rental
806.2	Assets-Source of Funds
806.4	Property
808.2	Property Leaseholds
808.3	Deed Restricted Properties
910	Flood Insurance

For more information, contact your National Client Services Team at 800-967-2205. The Citi Correspondent website is also available for all of your pipeline management needs at [correspondent.citimortgage.com](http://correspondent.citimortgage.com).

**This communication is to keep you informed of ongoing Citibank Correspondent program changes and is not an indication of your present or future approval status for selling loans to Citibank.**

ENCRYPT CUSTOMER DATA: Lenders have a responsibility to protect consumer information. Maintaining confidentiality of such information is a top priority at Citibank. This responsibility includes improving controls around the storage and transmission of such information. Citibank requests that all loan data be encrypted whenever you send it to us via email. While Citibank cannot endorse a particular encryption tool please begin utilizing an appropriate encryption method with all future transmissions. Encryption should help minimize the risk of potential unauthorized viewing or use of such information.

The information contained in this Bulletin immediately (or as of any effective date indicated in the Bulletin) supplements and supersedes (to the extent there may be a conflict) the provisions of the Citibank Correspondent Loan Purchase Agreement and Citibank Correspondent Manual that govern each Loan submitted by Correspondent for Citibank's purchase after the date of the Bulletin. There may be a delay in the publication of any change to the Correspondent Manual required as a result of the information contained in the Bulletin. During the period of any such publication delay, the provisions of the Bulletin control over any conflicting provision of the Correspondent Manual.

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