

Date: March 24, 2020

**Subject: FNMA and FHLMC Appraisal Flexibility and Credit Related Issues**

As we continue to monitor the acute impact of the COVID-19, Guild Correspondent is taking the following measures, effective immediately for application dates on or before May 17, 2020 for FNMA and FHLMC loans.

FNMA and FHLMC temporarily allow alternatives to the traditional appraisal required when an interior inspection and credit related issue due to the COVID-19 concerns.

The parameters for use of alternative appraisal reports are as follows:

Loan Purpose	LTV	Occupancy	Ownership of loan being refinanced	Permissible appraisals In order of Preference
Purchase*	Per Eligibility Matrix	Principal Residence	N/A	Traditional Desktop Exterior-only
	≤ 85%	Second Home Investment		Traditional Desktop Exterior-only
	>85%	Second Home		Traditional
Limited Cash-out Refinance	Per Eligibility Matrix	All	FNMA to FNMA or FHLMC to FHLMC	Traditional Exterior-only
Cash Out			N/A	Traditional

\*Excludes new construction and construction-to-perm loans

**Desktop Appraisals**

A desktop appraisal (not to be confused with a desk review) is allowed for purchase transactions and would be preferred over an exterior-only report.

A desktop appraisal is completed on the appropriate form for the subject property type but does not include an inspection of the subject or comparable sales. The appraiser uses public records, multiple listing service information, and other third-party data sources to identify the property characteristics

Required exhibits for desktop appraisals:

- Location map indicating the location of the subject and comparable sales, and
- Photographs of the subject property.

The desktop appraisal (form 1004 and 1073) is submitted to FNMA and FHLMC through the UCDP and will be scored. Loans with a CU Risk Score of 2.5 or lower will receive value representation and warranty relief. A CU score of >2.5 will require the underwriter's standard due diligence in responding to the risk messages returned in the SSR. A score of 3.5 or higher where the LTV is ≥90% will require a traditional appraisal.

## Exterior-only Appraisals

An exterior-only appraisal may be obtained in lieu of a traditional appraisal for the following transactions:

- Purchase money loans
- Limited cash-out refinances where the new loan is a FNMA refinance of a loan owned by FNMA, or the new loan is a FHLMC refinance of a loan owned by FHLMC.

Required exhibits for exterior-only appraisals:

- Street map that shows the location of the subject and comparable sale, and
- Clear photos of the front of the subject
- Any other data – as an attachment or addendum to the report – that are necessary to provide an adequately support opinion of market value

## Appraisal Waivers

Whenever possible, we need to accept appraisal waivers when eligible as provided through the AUS findings.

## Completion Reports (1004D)

A 1004D is required to evidence completion of any items made “subject to” on the appraisal report. When a completion report is not available due to issues related to COVID-19, lenders may obtain a letter signed by the borrower confirming that the work was completed. The file must also provide additional evidence of completion, which may include photographs of the completed work, paid invoices, occupancy permits, or other similar documentation.

## PRIVATE MORTGAGE INSURERS

The following MI companies have indicated that they will be insuring loans using the GSE’s appraisal flexibilities:

- Arch
- Essent
- MGIC
- Radian

Genworth and National are researching and are expected to make an announcement soon.

## Pre-Close Verbal Verification of Employment

In instances where we are unable to contact the employer by phone to conduct the pre-close verbal verification of employment, FNMA and FHLMC will permit an email directly from the employer’s work email address that identifies the name and title of the verifier and the borrower’s name and current employment status. If this is not possible, lenders may consider using a very current paystub or bank statement to verify the borrower continues to receive a paycheck. It will be important to have the conversation with your borrowers to learn what their income/employment status is.

## Continuity of Income

Given the current economic climate associated with COVID-19 and its impact on employment and income, we need to practice additional due diligence to ensure the most recent information is obtained. We need to ensure, to the extent it is possible, any disruption to the borrower's employment and/or income due to COVID-19 is not expected to negatively impact their ability to repay the loan. For self-employed borrowers, we would need to attempt to verify that the borrower's business is operational closer to the note date (e.g., within 15 days).

### **Title Insurance**

While many county recorder's offices are accepting e-recordings, others are closed. If we have a lender's title policy on the 2006 ALTA loan title insurance form (or a local equivalent), Covered Risk 14 in the 2006 ALTA form includes 'gap coverage' for matters arising between the loan closing date and the recording date. This is acceptable as long as there is no exception for this coverage under Schedule B of the policy.

These temporary flexibilities are effective immediately for all loans purchased and remain in place for loans with application dates on or before May 17, 2020 (subject to change per the investor). Note that the Selling Guide and AUS messages will not be updated to reflect these temporary policies.

If you should have any questions, please contact your Account Executive.