

BULLETIN #2016-04

TO: Distribution

DATE: January 27, 2016

**RE: CMG Financial Correspondent
Lending Updates**

EFFECTIVE: As noted below

CMG FINANCIAL CORRESPONDENT LENDING UPDATES

Topics Covered in this Announcement:

- [VA FAQs on QM - VA Circular 26-16-3](#)
- [VA Policy Clarification – Individuals on Title – VA Circular 26-16-1](#)
- [Enhancement: Rebuttable Presumption IRRRLs](#)
- [Update: Texas Section 50 \(A\) \(6\)](#)

VA FAQs ON QM-VA CIRCULAR 26-13-3

Summary: On January 20th, the VA issued answers to QM FAQs via [Circular 26-13-3](#). Refer to full circular and its [Exhibit A](#) for complete details. However, below are a few of the notable FAQs:

Will VA still guaranty the loan if the IRRRL does not meet the recoupment period of less than 36 months, or does not meet the 6-month seasoning requirements?

- Yes, VA will guaranty the loan; however, the loan will not have Safe Harbor QM status. Instead it will be a Rebuttable Presumption QM. VA does not condition the guaranty on satisfaction all of the QM requirements.
- **CMG Reminder:** *CMG does permit Rebuttable Presumption IRRRLs if ALL the requirements noted in the guidelines/matrices are met.*

What is the date that begins the seasoning and recoupment periods?

- The date of the note is the date on which legal obligations are established between borrower and lender. Therefore, to calculate the seasoning period, the lender should use the date of the note that is being refinanced. The starting date for recalculating the recoupment period is the date of the new IRRRL note.

Are pre-paid expenses, such as real estate taxes and home owners' insurance counted in total closing costs for the 36-month recoupment period?

- No, only those expenses the veteran incurs as a cost of the IRRRL must be included in the recoupment period. VA does not believe it is necessary to include in the recoupment period the costs of items the borrower would have paid anyway under the loan being refinanced. The purpose of the recoupment calculation is to demonstrate the difference in out-of-pocket or financed expenses between the original loan and the new IRRRL. Consequently, if expenses like homeowners' insurance premiums, taxes, special assessments, and homeowners' association fees were, or would have been, payable under the original loan, they are excluded from the recoupment calculation.

If I submit a loan for VA prior approval that is considered a Rebuttable Presumption QM, and VA approves the loan, will the loan have Safe Harbor protections?

- No. The type of QM protection would not change simply because VA approved a lender's underwriting. VA's approval of underwriting is limited to the validity of the guaranty and does not affect the

type of QM designation.

Can lender credits be excluded from the recoupment calculation?

· Whether a lender credit or premium pricing is a cost of the IRRRL, and thus included in the recoupment calculation, depends on whether a lender's credit is an incentive paid on behalf of the veteran or is a result of some sort of consideration the veteran provides. If the former, the lender credits and premium pricing can be excluded from the recoupment calculation. If the latter, they must be included. In other words, lender credits and premium pricing may be excluded from the recoupment calculation only to the extent they offset fees allowed in 38 C.F.R. § 36.4313.

Is VA prior approval required on a proposed IRRRL that does not meet the requirements for exemption of income verification?

· A prior approval submission on a proposed IRRRL is only necessary if the original loan is 30 or more days past due.

References/Links:

- Circular 26-16-3: [Click Here](#)
- Circular 26-16-3 Exhibit A: [Click Here](#)

VA POLICY CLARIFICATION-INDIVIDUALS ON TITLE

Summary: On January 14th, VA issues Circular 26-16-1 to clarify questions that have arisen regarding the Department of Veterans Affairs (VA) policy on the use of the VA home loan guaranty.

· When a loan is originated that includes a Veteran borrower and a non-borrower spouse, the Veteran borrower must sign all documents including the mortgage note and the mortgage deed of trust (as required by state law).

· The non-borrower's spouse must sign either the mortgage note or the mortgage deed. Note: This does not apply to joint loans as outlined in Chapter 7 of the VA Lenders Handbook Pamphlet 26 -7, as all borrowers must sign all documents including the mortgage note and/or the mortgage deed of trust (as required by state law).

Background: VA is aware lenders occasionally make loans to Veterans who wish to use their home loan benefit to purchase a home and include their spouse in ownership, but the spouse does not wish to be on the mortgage loan. Including the spouse on the deed, but not on the mortgage note can create a problem in the event the loan was to be foreclosed because the non-borrower's ownership in the property could defeat the foreclosure action. Delaying or preventing a foreclosure increases foreclosure claim cost to the government and Veteran.

Policy: This circular is not outlining a policy change; VA does not allow an individual to take title to a property if that individual is not on either the mortgage or a deed of trust. Accordingly, if a spouse or other owner does not want to sign a mortgage note and be obligated for a VA-guaranteed home loan that individual must sign a deed of trust.

References/Links: http://www.benefits.va.gov/HOMELOANS/documents/circulars/26_16_1.pdf

ENHANCEMENT: REBUTTABLE PRESUMPTION IRRRLS

Summary: Guidelines will be updated to allow the recoupment period for VA Rebuttable Presumption IRRRLs to be waived if there is a reduction in term of at least five years.

- Recoupment must not exceed 60 months (Recoupment can be waived with a reduction in term of at least five years) There are no other changes to the existing requirements currently noted in guideline and matrices.

Effective Date: Enhancement will be effective as of the date of this announcement. Guidelines and matrices will be update accordingly the week of January 25th.

UPDATE: TEXAS SECTION 50(A)(6)

Summary: CMG is no longer maintaining an approved attorney list for closing documents for Texas Section 50(A)(6) transactions. It is the Correspondent Lender's responsibility to ensure loans and closing documents comply with agency and Texas Constitution requirements.

Effective Date/Guidelines: This update is effective January 27, 2016. Loan matrices will be updated and reposted January 27th.

***Please contact your Correspondent National Sales Manager
or your Correspondent Liaison with any questions.***

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