

BULLETIN #2017-07

TO: Distribution

DATE: January 30, 2017

RE: CMG Financial Correspondent Lending Updates

EFFECTIVE: As noted below

CMG FINANCIAL CORRESPONDENT LENDING UPDATES

Topics Covered in this Announcement:

- [6200 Series Jumbo Enhancement to Allow 1-4 Unit Investment Properties](#)
- [Freddie Mac Changes to Income Qualification Requirements](#)
- [Fannie Mae Updates to Policy on Providing Information to the Appraiser](#)
- [REMINDER: FHA Cash Out Seasoning Requirement](#)

6200 SERIES JUMBO ENHANCEMENT TO ALLOW 1-4 UNIT INVESTMENT PROPERTIES

Summary: We are pleased to announce the release of the following enhancement for the 6200 Series Jumbo:

- Investment properties are now permitted for Purchase and Rate/Term Refinance transactions as noted below:

Investment Purchase, Rate and Term Refinance*				
Transaction Type	Units	FICO	Maximum LTV/CLTV/HCLTV	Maximum Loan Amount
Purchase	1-4	740	65%	\$1,000,000
Rate and Term Refinance	1-4	740	60%	\$1,000,000

*In addition, the following requirements apply for Investment Property Purchase and Rate and Term

- Refinance transactions:
 - 30 year fixed rate only
 - Gift funds not allowed
 - Transaction must be arm's length
 - Appraiser to provide rent comparable schedule
 - If using rental income an executed lease agreement must be provided; see Rental Income requirements in the Income / Employment section of the full guidelines for more details
 - First-Time Homebuyers not allowed
- Geographic Restrictions:
 - Florida condominiums limited to 50% LTV/CLTV/HCLTV
 - New Jersey: 3-4 Units are not permitted
 - New York.
 - CEMA Transactions not permitted.
 - 3-4 Units in NY are eligible subject to 100% prefunding QC Audit

In addition, the 6200 guidelines are updated to clarify the following:

- Clarified QM Designation requirements
- Clarified Cash Out Refinance requirements

Effective Date: *Immediately*

Guidelines: [6200 Series Jumbo](#) will be updated and available on January 30, 2017.

FREDDIE MAC CHANGES TO INCOME QUALIFICATION REQUIREMENTS

Summary: Freddie Mac is revising income qualification requirements. Full changes are as noted in the “future” revisions of the Freddie Mac Selling Guide available from Freddie Mac Via AllRegs. The revisions provide more comprehensive requirements and guidance with a focus on matters that impact the analysis of stable monthly income such as:

- Industry employment trends (e.g., employment characteristics)
- Determination of stability and calculation of fluctuating earnings
- Self-employment

In addition, there are significant updates to requirements and eligibility for certain situations. For information regarding applying the changes and CMG’s Effective Date, regardless of Loan Product Advisor Findings, refer to Effective Date below.

- **All loan must adhere to the new requirements based on the Effective Date regardless of Loan Product Advisor Findings.**
- **All loans prior to the Effective Date must meet existing requirements.**

The following are notable items that impact CMG guidelines:

- **Unreimbursed employee expenses** – Adding flexibility by specifying that business expenses must be deducted from the income only when the expenses are associated with commissions greater than or equal to 25% of the income from the commissioned employment. That is, for additional employed income Freddie Mac is specifying requirements for commission income that represents less than 25% of the income from the commissioned employment (e.g., tax returns are not required and unreimbursed employee business expenses do not have to be deducted from the income).
- **Self Employed:** Number of years the business has been in existence
 - For businesses operating for five or more years, one year of business and personal returns will be required
 - For businesses operating for less than five years, two years of business and personal returns will be required
- **Projected Income (Income commencing after Note Date):** For Borrowers starting new employment, income commencing after the Note Date may be considered a stable source of qualifying income, provided all requirements below are met.

Subject	Requirements
Employment and earnings type	<ul style="list-style-type: none"> • Primary employment • Base non-fluctuating salaried earnings
General eligibility	<ul style="list-style-type: none"> • Purchase money Mortgage • 1-unit Primary Residence • Ineligible: Borrower employed by a family member or by an interested party to the transaction
Offer letter or employment contract	<ul style="list-style-type: none"> • Copy of the employment offer letter or employment contract that <ul style="list-style-type: none"> ○ Is fully executed and accepted by the Borrower ○ Is non-contingent or provide documentation, such as letter or e-mails, from the employer verifying all contingencies have been cleared ○ Includes the terms of employment, including but not limited to, employment start date and annual base non-fluctuating earnings • The Seller's written analysis must confirm employment contracts are reasonably common to the particular employment field, industry and/or region
10-day pre-closing verification	10-day PCV verifying the terms of the offer letter or employment contract have not changed
Additional requirements	<p>The file must include with the written analysis that lender that the below requirements are being adhered to:</p> <ul style="list-style-type: none"> • The lender is not required to obtain the paystub for the new employment • The Note Date cannot occur more than 60 days prior to the commencement of employment as documented on the offer letter or employment contract, and • The lender must: <ul style="list-style-type: none"> ○ Document adequate income and/or liquid assets to pay the monthly housing expense and other monthly liabilities between the Note Date and the employment start date, and ○ Document an additional six months reserves

	Note: The Freddie Mac selling guide provides for an alternative option to obtain a paystub and retain in the mortgage file, validating the income used to qualify, and meeting additional reserve requirements. However, at time of closing/purchase the transaction needs to be eligible for delivery so one Option One in the Freddie Selling Guide is acceptable.
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Effective Date: Loans purchase on and after March 6, 2017 must meet the new requirements regardless of Loan Product Advisor findings. Loans purchased prior to March 6, 2017 must meet existing requirements

Reference/Links:

- <http://www.freddiemac.com/singlefamily/guide/bulletins/pdf/bll1623.pdf>
<http://www.freddiemac.com/singlefamily/guide/bulletins/pdf/bll1619.pdf>

FANNIE MAE UPDATES TO POLICY ON DISCLOSURE OF INFORMATION TO APPRAISERS

Summary: In Fannie Mae announcement 2016-09 Fannie Mae clarified when the appraiser must be provided with updates to the sales contract and circumstances that warrant updates to the appraisal. For example, if the contract is amended in a way that affects the description of the real property used by the appraiser, then the lender must provide the updated contract to the appraiser and the appraisal should be updated. However, minor updates to the contract, such as changes to seller paid closing costs or changes to the contract price, do not require an updated appraisal. In addition, they have updated the policy to require disclosure of changes to financing information (such as loan fees and charges, and subordinate financing provided by interested parties) to the appraiser only for purchase transactions.

The Fannie Mae Selling guide section B4/1.1/05 on Information Disclosed to the Appraiser is updated as follows:

- **Overview:** Any and all information about the subject property that the lender is aware of must be disclosed to the appraiser. The appraiser must determine if the information could affect either the marketability of the property or the opinion of the market value of the property.
- **Sales Contract Information:** All financing data and sales concessions for the subject property that will be or have been granted by anyone associated with the transaction must be disclosed to the appraiser, as appropriate. Typically, this information is provided in the sales contract.

Therefore, the lender must provide, or ensure that the appraiser is provided with, a copy of the complete, ratified sales contract and all addenda for the property that is to be appraised.

- **Financial Information:** The list below includes items that must be disclosed to the appraiser on *purchase transactions*, if applicable:
 - settlement charges
 - loan fees or charges,
 - discounts to the sales price,
 - interest rate buydowns,
 - below-market-rate financing,
 - terms of any subordinate financing provided by interested parties,
 - credits or refunds of borrower expenses,
 - absorption of monthly payments,
 - assignment of rent payments, and
 - any other information not listed above that impacts property value.
- **Property Information:** The list below includes items that must be disclosed, if applicable:
 - condo or PUD fees;
 - non-realty items included in the transaction;
 - any environmental hazard in or on the subject property or in the vicinity of the property that the lender is aware of or learns from the borrower, the real estate broker, or any other party to the transaction (see [B4-1.4-08, Environmental Hazards Appraisal Requirements](#)); and
 - any other items that affect the safety, soundness, or structural integrity of a property of which the lender may be aware.
- **Contract Changes After the Appraisal is Completed:** If the contract is amended *after* the effective date of the appraisal in a way that does not affect the description of the property, then the lender is not required to provide the amended contract to the appraiser nor obtain a revised appraisal. Some examples of amendments that do not require the lender to provide the amended contract nor obtain revisions to the already-completed appraisal report include:
 - sale price,
 - transaction terms,
 - financing concessions,
 - seller-paid closing costs,
 - names or initials,
 - closing date, and
 - correction of minor clerical errors such as misspellings.

Note: Previously, Fannie Mae required the lender to provide the appraiser with all amendments made to a sales contract, including amendments that are made after completion of the appraisal.

Effective Date: *This Fannie Mae policy update is effective immediately.*

References/Links:

<https://www.fanniemae.com/content/announcement/sel1609.pdf>

<https://www.fanniemae.com/content/guide/selling/b4/1.1/05.html>

REMINDER: FHA CASH OUT SEASONING REQUIREMENTS

Summary: As a reminder, FHA Handbook 4000.1 requires that the property securing the cash-out refinance must have been **owned and occupied** by the borrower as their principal residence for the **12 months prior to the date of case number assignment**.

Exception: In the case of inheritance, a borrower is not required to occupy the property for a minimum period of time before applying for a cash-out refinance, provided the borrower has not treated the subject property as an Investment Property at any point since inheritance of the property. If the borrower rents the property following inheritance, the borrower is not eligible for cash-out refinance until the borrower has occupied the property as a principal residence for at least 12 months.

Effective Date: *This is a reminder. This requirement is already noted in the FHA Handbook and CMG FHA guidelines.*

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

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