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## BULLETIN #2016-08

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**TO: Distribution**

**DATE: February 26, 2016**

**RE: CMG FINANCIAL CORRESPONDENT  
LENDING UPDATES AND REMINDER**

**EFFECTIVE: As noted below**

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### CMG CORRESPONDENT LENDING UPDATES AND REMINDER

#### Topics Covered in this Announcement:

- [Fannie Mae Update: Continuity of Obligation](#)
- [Tax Time: Income Validation Policy Reminder](#)
- [USDA HB-1-3555 Updates: Effective March 9, 2016](#)

#### FANNIE MAE UPDATE: CONTINUITY OF OBLIGATION

**Summary:** The Fannie Mae continuity of obligation policy is being eliminated in its entirety. It applied to all limited cash-out and cash-out refinance transactions. For DU loans, the Fannie Mae continuity of obligation policy is no longer required. There is no change to the Freddie Mac continuity of obligation requirements.

**Effective Date:** This enhancement is effective immediately. The Desktop Underwriter® (DU®) messaging referencing continuity of obligation will be updated in a future release and may be disregarded until that time.

**Reference:** [SEL 2016-02](#)

#### TAX TIME: INCOME VALIDATION REMINDER

**Summary:** As a reminder, for closings between January 1st and April 15th, CMG's Income Validation Policy addresses the requirements when income from the previous year's W-2 and/or tax returns is being used to qualify. There is no change to this from last year's guidance; this is a reminder only regarding this one part of the [Income Validation Policy](#). Refer to CMG's [Income Validation Policy](#) for full requirements including when W-2 transcripts are eligible in lieu of full transcripts.

#### For salaried borrowers:

- If the W-2 income is used to qualify, the qualifying income must be verified as stable and consistent with previous years. If new income level is being established, W-2 (or full) transcripts are required for the previous year.
- Note: If W-2 transcripts are obtained for previous year these are in addition to obtaining full transcripts for number of years required. The W-2 Validation for salaried borrowers is at underwriting discretion as long as there is adequate alternative third party verification of income for the most recent year

#### Self-Employed and/or Tax Returns are Used to Document Income for Borrower

- If the previous year's tax return income is being used to qualify, the qualifying income must be

verified as stable and consistent with previous years. **If the most recent year's tax returns creates a new income level, transcripts are generally required for the most recent year.** If the increase in the most recent year tax returns is significant (a 20% increase is generally deemed significant), use of the income must be carefully evaluated on a case -by- case basis by underwriting. Rationale for use must be documented\*\*. In all cases, use of the previous year's income without transcript validation (a "No Record Found" due to a recent filing) requires the following:

- o Returns officially stamped by the IRS as received or evidence that the return was electronically received by the IRS; and
- o Evidence of a refund received or payment made (canceled check)

\*\*If the most recent year tax returns show an increase in gross sales, net sales and eventually net profit the income can generally be considered to be valid however, in cases where the sales do not increase but a large decrease in expenses is shown, the reason for the reduction of those expenses should be determined and evaluated to ascertain their validity and applicability to not just the current year but the future earnings of the company.

**Effective Date:** This is effective immediately.

**Reference:** CMG's [Income Validation Policy](#)

### **USDA HB-1-3555 UPDATES: EFFECTIVE MARCH 9, 2016**

**Summary:** On March 9, 2016 the final rule for 7 CFR Part 3555 and the revised technical handbook, HB-1-3555, will be effective for all conditional commitments issued by USDA. To prepare for the changes to HB-1-3555 a [revision document](#) is available from USDA. Below are some highlights and reminders of CMG USDA eligibility:

- **Bankruptcy.** CMG does not permit manual underwriting but will accept bankruptcies with revised waiting periods meeting USDA requirements with a valid GUS "Accept." USDA has removed the requirement for a credit waiver if GUS approved; therefore, less than three years may now be eligible if the file receives a GUS "Accept". Refer to revision document for full details.
- **Short sales** may now be eligible if < 3 years if new guidance is met, including that the loan was not in default at time of the short sale, and loan receives a GUS "Accept". Refer to revision document for full USDA guidance. CMG aligns with USDA waiting period eligibility with a valid GUS "Accept".
- **Credit Score:** CMG continues to require that all borrowers have at least two credit scores, meet CMG's minimum credit score requirement, and have traditional credit. This is in addition to USDA's requirement for the borrower to meet USDA's credit validation requirements (recently enhanced to two trade lines from three trade line minimum). Refer to full proposed changes for details on eligible trade lines for USDA's Credit Score Validation requirements.
- **Underwriting Method:** CMG continues to require GUS "Accept" findings. Manual underwriting and manual downgrades are not eligible. USDA has issued guidance on when manual downgrades are required. Loans requiring manual underwriting are not eligible as they do not meet CMG eligibility.
- **Other significant updates** (refer to USDA revision doc for details and full list of updates):
  - o Utilizing GUS: Cash Reserves, Omitting Liabilities, Income Worksheet, Resubmission Policy
  - o Eligible Loan Purpose & Prohibited Loan Purposes: Reasonable and Customary Expenses, Closing Costs and Lender Fees, Loan Discount Points , Conventional Financing eligibility documentation
  - o Applicant Eligibility: Owning a Dwelling, Obtaining Credit
  - o Qualifying Income – Annual Income (multiple sections)
  - o Repayment Income (multiple sections)
  - o Credit Report Requirements & Validating the Credit Score
  - o Major Adverse Credit, Disputed Accounts, & Authorized User Trade Lines
  - o Ratio Analysis – The Total Debt Ratio
  - o Appraisal Report & Property Requirements
  - o Origination Stacking Order Checklist updated (Attachment 15 -A)
  - o Loan Closing Stacking Order Checklist updated (Attachment 16 -A)

**Effective Date:** USDA changes are effective with Conditional Commitments issued on and after March 9, 2016. CMG matrices and guidelines will be updated with applicable changes prior to the effective date. Changes will be highlighted and noted in the 90 day look back section, when applicable.

**References:**

- To prepare for the changes to HB-1-3555 a [revision document](#) created by USDA is available.
- The 7 CFR Part 3555 final rule is available online at <https://www.gpo.gov/fdsys/pkg/FR-2016-02-08/pdf/2016-08172.pdf>.

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

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