CMG FINANCIAL
Correspondent Lending

BULLETIN #2017-18

TO: Distribution

DATE: April 12, 2017

RE: CMG Financial Correspondent Lending Updates

EFFECTIVE: As noted below

CMG FINANCIAL CORRESPONDENT LENDING UPDATES

Topics Covered in this Announcement:

ENHANCEMENT: MORTGAGE CREDIT CERTIFICATES

Summary: States and municipalities can issue mortgage credit certificates (MCCs) in place of, or as part of, their authority to issue mortgage revenue bonds. MCCs enable an eligible first-time home buyer to obtain a mortgage secured by his or her principal residence and to claim a federal tax credit for a specified percentage (usually 20% to 25%) of the mortgage interest payments. CMG will now allow borrowers to qualify using an MCC if the following requirements are met:

- Minimum fico to use MCC to qualify: 640
- $1200 residual income required
- 2 months reserves post-closing from borrower's own funds unless down payment is coming from borrower's own funds

Additionally:

- The amount used as qualifying income cannot exceed the maximum Mortgage interest credit permitted by the IRS (Current IRS cap is $2,000/year)
- A copy of the MCC must be in the loan file which indicates:
  - the percentage to be used to calculate the tax credit, and
  - the amount of the certified indebtedness. .
- All agency requirements must be adhered to (see below for details by financing type)

The Correspondent originating lender is fully responsible for the annual IRS reporting associated with the MCC issuance; CMG will not complete any required IRS reporting.

FHA & MCCs:

- The Mortgagee must verify and document that the Governmental Entity subsidizes the Borrower's Mortgage Payments either through direct payments or tax rebates.
- **Calculating Effective Income:** Mortgage Credit Certificate income that is not used to directly offset the Mortgage Payment before calculating the qualifying ratios may be included as Effective Income. The Mortgagee must use the current subsidy rate to calculate the Effective Income.

Conventional Conforming / VA & MCCs:

- When calculating the borrower's DTI ratio, treat the maximum possible MCC income as an addition to the borrower's income, rather than as a reduction to the amount of the borrower's mortgage payment. Use the following calculation when determining the available income: [(Mortgage Amount) x (Note Rate) x (MCC %)] ÷ 12 =Amount added to borrower's monthly income

- For example, if a borrower obtains a $100,000 mortgage that has a note rate of 7.5% and he or she is eligible for a 20% credit under the MCC program, the amount that should be added to his or her monthly income would be $125 ($100,000 x 7.5% x 20% = $1500 ÷ 12 = $125). (Cannot exceed $167/month)
- The lender must obtain a copy of the MCC and the lender's documented calculation of the adjustment to the borrower's income and include them in the mortgage loan file.

USDA Handbook Requirements:

- If a government entity subsidizes the mortgage payments, either through direct payments or through tax rebates, these payments can be considered as acceptable income if verified in writing. The subsidy must be used directly to offset the mortgage payment before calculating the qualifying ratios.
- Mortgage Credit Certificates (MCCs) may be considered in determining an applicant's repayment ability. The Tax Reform Act of 1984 authorizes MCCs to provide housing assistance through a tax credit to families with low and moderate incomes. The MCC enhances the applicant's repayment ability as it enables the applicant to take an income tax credit which can be used toward repayment of the mortgage loan. When the lender is participating in an MCC program the amount of the tax credit is considered as an additional resource available for repayment of the loan when the credit is taken on a monthly basis from withholding. This type of subsidy may be used to directly offset the mortgage payment before calculating the qualifying ratios. The agency issuing the MCC determines the amount of the tax credit. The amount of tax credit is limited to the applicant's maximum tax liability. No portion of the MCC is included in the annual income calculation. When the lender utilizes the MCC as a direct reduction in housing expense to qualify the applicant in the ratio analysis, the lender must provide the following documentation when applying an MCC:
    - A copy of the MCC. The MCC must show the rate of credit allowed;
    - The applicant's newly filed IRS W-4 "Employee's Withholding Allowance Certificate" form to reflect that the applicant is taking the tax credit on a pay period basis; and
    - Lender certification that the applicant completed and processed all necessary documents in order to receive the credit.

Effective Date: *This enhancement is effective immediately.*

UPDATE: VA MAXIMUM TOTAL LOAN AMOUNT

Summary: The CMG maximum total loan amount for VA transactions is increasing to $1,200,000 from $1,000,000. In all cases 25% guaranty/equity requirements must be met.

Effective Date: *Immediately*

REMINDER: TRUST SIGNATURE REQUIREMENTS

Summary: As a reminder, CMG follows Fannie Mae and state law requirements in regards to signature requirements for mortgages to inter vivos revocable trusts:

Links:
Fannie Mae Requirements
CMG's Trust Checklist

Effective Date: *Immediately*

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

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