

BULLETIN #2016-17

TO: Distribution

DATE: April 20, 2016

RE: CMG Financial Correspondent Lending Updates

EFFECTIVE: As noted below

CMG FINANCIAL CORRESPONDENT LENDING UPDATES

Topics Covered in this Announcement:

- [Disaster List Updates: Texas & Mississippi](#)
- [FHA Mortgagee Letter 2016-08 - Student Loans](#)
- [VA Circular 26-16-11 –TRID](#)
- [Reminder –Taxes Due and FHA Transactions](#)

DISASTER LIST UPDATES: TEXAS & MISSISSIPPI

Summary: CMG is instating the CMG [Disaster Policy](#) for several counties in Texas. We will monitor the situation and provide updates when available. The governor of Texas has declared a state of emergency in the following counties:

Texas		
Austin County	Bastrop County	Colorado County
Fort Bend County	Grimes County	Harris County
Montgomery County	Waller County	Wharton County

In addition, FEMA has added additional counties to Individual Assistance for the Texas declaration DR-4266 that was declared on 3/19/2016:

Texas (DR-4266)		
Henderson County	Limestone County	Shelby County
Tyler County		

In addition, FEMA has added additional counties to Individual Assistance for Mississippi:

Mississippi		
Clarke County	Forrest County	George County
Greene County	Jones County	Marion County
Panola County	Pearl River County	Perry County
Quitman County	Sunflower County	Tallahatchie County
Tunica County	Wayne County	

Note: The designation of an area as a “disaster area” for the purpose of CMG’s Disaster Policy is made by CMG Corporate Credit and can be based on a federally or state declared disaster area (FEMA or state/federal agency), or through knowledge of a disaster as a result of news and media or personal contacts.

Links:

- FEMA Disasters: www.fema.gov/disasters
- Texas (DR-4266) Declaration: <https://www.fema.gov/disaster/4263/>
- Mississippi Declaration: <https://www.fema.gov/disaster/4268>

Effective Date: *Immediately*

FHA MORTGAGEE LETTER 2016-08 - STUDENT LOANS

Summary: FHA issued [Mortgagee Letter 2016-08, Student Loans](#), providing revised guidance for mortgagees when calculating student loan obligations for use in a borrower's debt -to-income ratio calculation. The revised guidance allows the same calculation criteria to be applied regardless of the student loan payment plan type (such as income-based payment plans) or deferral status, and also includes:

- A 50 percent reduction in the percentage used to calculate monthly student loan obligations, or the use of the actual documented payment when the payment fully amortizes the loan over its term. This may result in increased purchasing ability for some borrowers, while ensuring borrowers have the long-term ability to meet debt obligations.
- The separation of student loan policies from other deferred obligations and installment loans, including future incorporation into the *Single Family Housing Policy Handbook* 4000.1. This separation provides greater clarity for mortgagees on the unique treatment of student loan payment calculations versus the calculations required for other deferred obligations.

Effective Date: CMG will align with FHA and allow the use of the new guidance in Mortgagee Letter 2016-08 immediately; however, all lenders must use the new guidance for all case numbers assigned on or after June 30, 2016.

Impact: New guidance -

- May be more restrictive for IBR and other non-fully amortizing loans that are in repayment as you cannot use actual payment if loan will not fully amortize over its term. Note: You may continue to use current handbook guidance for case number issue prior to June 30th, 2016.
- May be less restrictive for loans in deferment when using the percentage of outstanding balance as you can now use 1% vs 2%. Note: You may follow new guidance as per the ML.

Quick Links: [Mortgagee Letter 2016-08](#)

Summary (refer to current handbook and ML for full details)	
Current Handbook Requirements (requirements for student loans either under installment debt or deferred, as applicable)	Revised Handbook Requirements (new "Student Loan" section)
<p>Student Loan not Deferred:</p> <ul style="list-style-type: none">• As long as student loan is not in deferment, use actual payment; including actual payment for IBR (even if \$0) or other payment plans that did not fully amortize. <p>Deferred:</p> <ul style="list-style-type: none">• For a student loan, if the actual monthly payment is zero or is not available, the Mortgagee must utilize 2 percent of the outstanding balance to establish the monthly payment.	<p>Required Documentation: If the payment used for the monthly obligation is:</p> <ul style="list-style-type: none">• less than 1 percent of the outstanding balance reported on the Borrower's credit report, and• less than the monthly payment reported on the Borrower's credit report; <p>the Mortgagee must obtain written documentation of the actual monthly payment, the payment status, and evidence of the outstanding balance and terms from the creditor.</p> <p>Calculation of Monthly Obligation: Regardless of the payment status, the Mortgagee must use either:</p> <ul style="list-style-type: none">• the greater of:<ul style="list-style-type: none">o 1 percent of the outstanding balance on the loan; oro the monthly payment reported on the Borrower's credit report; or• the actual documented payment, provided the payment will fully amortize the loan over its term.

VA CIRCULAR 26-16-11 TRID

Summary: CFPB's change from a HUD-1 to the TRID-CD, has caused uncertainty on the part of lenders regarding how the TRID-CD should be completed for VA loans. Accordingly, by issuing [Circular 26-16-11](#), VA is clarifying how lenders should complete the TRID -CD in order to meet VA program requirements regarding allowable fees and charges which are charged to the borrower and how to itemize lender and seller credits. In addition, this Circular clarifies how to treat loan expenses not expressly permitted by VA regulations.

- **Specifically Itemized Costs.** Lenders may charge only certain fees to Veterans. These are commonly referred to as reasonable and customary "allowable fees and charges" which, for the most part, are actually third party fees. These fees and charges include the following: (1) Appraisal fees (2) Recording charges (3) Credit report (4) Taxes and assessments (5) Hazard insurance (6) Surveys (7) Title examinations and insurance (8) Flood zone determinations and life of loan service (9) Other items authorized by the VA per local variances
- **Other Costs.** In addition, 38 CFR 36.4313(d)(2), permits a lender to charge the Veteran a flat charge, not exceeding one percent of the amount of the loan if that charge is in lieu of all other charges relating to costs of origination not set out in 36.4313(d)(1). These fees are in general, charged by the lender, but could be third party fees as well. There is a list of some of the more common costs of origination not specifically allowed by 38 CFR 36.4313(d) (1) in the VA Lender's Handbook, Pamphlet 26-7, chapter 8, section 2.d. These miscellaneous costs, which aren't specifically listed as "allowable fees and charges" in the regulation may still be charged by lenders on VA loans, provided they are included in the one percent lenders are permitted to charge the Veteran.
- **Itemization of Expenses on the TRID CD.** In order for VA to determine that the lender has complied with the fees and charges limitations of 38 CFR 38.4313, lenders must complete the TRID CD accurately. Exhibits A and B (see links) are provided as sample TRID CDs to clarify the proper way to account for charges to the Veteran and charges paid by others such as lender or seller credits.
 - Example 1 ([see Exhibit A](#)). The fees and charges shown in this example clearly exceed the allowable one percent flat fee for charges related to the cost of origination of the loan. Even taking into account the lender and/or seller credits, the borrower was charged more than one percent by the lender, so it does not conform to 38 CFR 36.4313.
 - Example 2 ([see Exhibit B](#)). This example shows an alternative to the fees charged to the Veteran that exceed the one percent flat charge, but would otherwise be considered lender or seller credits. Even though the lender chose to provide an additional credit, it was not necessary to itemize that credit because all other charges were accounted.
- A final borrower signed copy of the TRID CD is required on all loans.
- If completed properly, no additional itemization of lender or seller credits is necessary.

Note: If you need to apply a credit to a fee due to being unallowable, then ensure the CD shows the cost in the Seller-Paid or Paid by Others column.

Link to Full Circular and Examples/Exhibits:

http://www.benefits.va.gov/HOMELOANS/documents/circulars/26_16_11.pdf

Example 1 [see Exhibit A](#)

Example 2 [see Exhibit B](#)

REMINDER: TAXES DUE AND FHA TRANSACTIONS

Summary: Recently we issued clarification on the FHA Handbook requirement that when a borrower shows taxes due on documentation in the loan file (tax returns, tax transcripts, or other documentation) the lender must document that the borrower has paid the taxes due. This applies to any year's tax returns in the loan file. This is based on the FHA 4000.1 Handbook requiring that the borrower can have no unpaid federal debt. Federal taxes owed must be documented as paid.

Impact: Now that 2015 taxes are due for most filers, proof of taxes paid for 2015 is also required for any files that show borrower owed taxes for 2015. If borrower is unable to pay taxes due and sets up a payment plan the borrower is not eligible until the borrower has made three scheduled payments.

Reference (from Handbook 4000.1): Borrowers with delinquent Federal Tax Debt are ineligible.

- Tax liens may remain unpaid if the Borrower has entered into a valid repayment agreement with

the federal agency owed to make regular payments on the debt and the Borrower has made timely payments for at least three months of scheduled payments. The Borrower cannot prepay scheduled payments in order to meet the required minimum of three months of payments.

- The Mortgagee must include the payment amount in the agreement in the calculation of the Borrower's Debt-to-Income (DTI) ratio.

Note: For years available, Account Transcripts or Record of Account (ordered via 4506-T) can be used in lieu of canceled check or proof of electronic payment.

Effective Date: *Immediately*

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

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