BULLETIN #2018-17

TO: Distribution

DATE: May 29, 2018

RE: CMG Financial Correspondent Lending Updates

EFFECTIVE: As noted below

CMG FINANCIAL CORRESPONDENT LENDING UPDATES

Topics Covered in this Announcement:

- VA IRRRL NEW REQUIREMENTS- *EFFECTIVE IMMEDIATELY*
    - Fee Recoupment
    - Net Tangible Benefit
    - Exhibit A- Discount Points & Acceptable Appraisal Reports
    - Loan Seasoning
    - Background for Circular / New Law
- DISASTER LIST UPDATE MARYLAND- *EFFECTIVE IMMEDIATELY*

VA IRRRL- NEW REQUIREMENTS

VA Policy Guidance Update: VA has issued important program changes that go into effect immediately for applications taken on or after May 25, 2018.

The new requirements address the following:

- Fee Recoupment-Rebuttable Presumption no longer permitted!
- Net Tangible Benefit- New!
- Exhibit A- Discount Points & Acceptable Appraisal Reports
- Loan Seasoning- Similar to existing GNMA requirements already required.
- Background for Circular / New Law

FEE RECOUPMENT

The lender, which is also includes any broker or agent of the lender, and any servicer or issuer of an Interest Rate Reduction Refinance Loan (IRRRL) must:

- Provide recoupment statements to VA in accordance with VA Circular 26-18-1 and 26-18-1 Change 1 exhibit A Policy Guidance for VA Interest Rate Reduction Refinance Loans (IRRRL) and;
- Certify that all fees and incurred costs, referenced in VA Circular 26-18-1, shall be recouped on or before the date that is 36 months after the date of the loan, as determined by the date of the loan note.

Note: The recoupment calculation is described in Circular 26-18-1 and is the result of lower monthly payments of the refinanced loan. Circular 26-18-1 Exhibit A.

CMG will no longer permit Rebuttable Presumption IRRRLs. *This is effective with loan applications taken on or after May 25, 2018.*

NET TANGIBLE BENEFIT

The Lender, which also includes any broker or agent of the lender, and any servicer or issuer of an IRRRL, must provide Veteran or borrower a net tangible benefit test (NTB) as follows:

- A case in which the previous VA loan had a fixed interest rate and the new refinance loan will have a fixed interest rate, the new refinanced loan must have an interest rate that is not less than 50 basis points (.50 less in interest rate) less than the previous loan.
- A case in which the previous VA loan had a fixed interest rate and the new refinanced loans will have an adjustable rate, the new refinanced loan must have an interest rate that is not less that 200 basis points (2.00 less in interest rate) less than the previous loan, and
- The lower interest rate is not produced solely from discount points unless;
  - Such points are paid at closing; and
  - For discount point amounts that are less than or equal to one discount point, the resulting loan balance after any fees and expenses allows the property with respect to which the loan was issued to maintain a loan-to-value (see exhibit A) ratio if 100 percent or less; and
  - For discount point amounts that are greater than one discount point, the resulting loan balance after any fees and expenses allows the property with respect to which the loan was issued to maintain a loan-to-value (see exhibit A) ratio of 90 percent or less.

EXHIBIT A- DISCOUNT POINTS & ACCEPTABLE APPRAISAL REPORTS

According to The Protecting Veterans from Predatory Lending Act of 2018, a loan-to-value determination must be made when discount points are charged. When discount points are not charged, a value determination is not required. These appraisals will not be ordered through WebLGY or the VA Fee Panel. Lenders should use their appraisal management and assignment process to complete a value determination. Acceptable forms of appraisal reports are:

1. Exterior-Only Inspection Residential Appraisal Report (Fannie Mae 2055)
2. Uniform Residential Appraisal Report (Fannie Mae 1004)
3. Exterior-Only Inspection Individual Condominium Unit Appraisal Report (Fannie Mae 1075)
4. Individual Condominium Unit Appraisal Report (Fannie Mae 1073)
5. Other industry accepted appraisal reports for manufactured and multi-unit homes

Note: CMG only permits IRRRLs without an appraisal valuation product when certain requirements are met. Refer to CMG Guidelines for CMG eligibility of an IRRRL without a valuation product. However, when discount points are charged VA requirements must be met and the above are the only acceptable appraisal reports to determine LTV.

Appraisal Cost and Recoupment Calculation

- If lenders require the Veteran to pay for the cost of the appraisal, the cost must be included as part of the recoupment cost.
- The Veteran may only be charged a reasonable and customary amount, and only charged for one appraisal. Loan-to-value is calculated by dividing the VA base loan amount (excluding the funding fee, if any) by the value determined in one of the methods listed above.

After obtaining the VA Loan Identification Number (LIN), lenders have the ability to upload the appraisal report in WebLGY. If the appraisal is not uploaded prior to loan guaranty, lenders must upload it to the correspondence link of the VA LIN in WebLGY. Lenders must pay close attention at the time of guaranty to WebLGY messages.

LOAN SEASONING

All VA-guaranteed loans must be seasoned for a period of time, before refinancing to an IRRRL, also known as a VA Streamline refinance, The seasoning period also applies to cash-out refinances when the principal amount of the new loan is less than the loan being refinanced. (Although VA seasoning requirements shall not apply to a VA cash-out or "regular" refinance if the principal amount of the new cash-out loan will exceed the amount of the loan being refinanced, GNMA seasoning requirements continue to apply to all cash out / regular refinance transactions.) The new VA required seasoning is the later of;

- The date that is 210 days after the date on which the first payment is made on the loan and;
- The date on which the sixth monthly payment is made on the loan.

BACKGROUND FOR CIRCULAR / NEW LAW:

The Senate passed S. 2155, The Economic Growth, Regulatory Relief, and Consumer Protection Act of 2018 on March 14, 2018, and the House voted in favor of S. 2155 on May 22, 2018. The bill has been signed by the President and is now law. S. 2155 includes The Protecting Veterans From Predatory Lending Act of 2018 (the Act), a measure designed to protect Veterans from predatory lending practices known as “loan churning” or “serial refinancing”, when obtaining a VA-guaranteed refinance loan. These practices not only impact Veterans negatively, but also disrupt the secondary mortgage market, resulting in higher interest rates to Veterans and lower returns to investors in the secondary market.

Effective Date: ***Loan applications taken on or after May 25, 2018*** *that do not meet the new requirements will not be eligible for guaranty by VA.*

Loans that do not meet the requirements of The Protecting Veterans from Predatory Lending Act of 2018, will not be eligible for guaranty. WebLGY will prevent guaranty of loans that do not meet recoupment, net tangible benefit, and loan seasoning requirements. VA will be performing file audits to ensure that lenders are complying with the new law.

Circular:

- https://www.benefits.va.gov/HOMELOANS/documents/circulars/26_18_13.pdf
- exhibit A

DISASTER LIST UPDATE MARYLAND

Due to the extent of damage and impact caused by the severe storms, CMG is placing properties located in Howard County, Maryland on CMG’s Disaster List.

Action to Take: Properties in Howard County, Maryland are subject to CMG's Disaster Policy.

Links:

- CMG Disaster Area Policy
- Governor Larry Hogan Declares State of Emergency
- The State of Maryland Executive Order 01.01.2018.09

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

3160 Crow Canyon Road, Suite 400, San Ramon, CA. 94583 | 800.501.2001 | NMLS #1820 | www.cmgfi.com