

BULLETIN #2017-34

TO: Distribution

DATE: August 9, 2017

RE: CMG Financial Correspondent Lending Updates

EFFECTIVE: As noted below

CMG FINANCIAL CORRESPONDENT LENDING UPDATES

Topics Covered in this Announcement:

- [Fannie Mae Clarifications-Student Loans, Alimony & Mortgages Paid by Others](#)
- [Fannie Mae DU 10.1 Reminder & More Detail-Disputed Tradelines](#)
- [6400 Series "Flex" Jumbo Updates](#)

FANNIE MAE CLARIFICATIONS-STUDENT LOANS, ALIMONY & MORTGAGES PAID BY OTHERS

Summary: In addition to the recently announced DU version 10.1 updates, Fannie Mae has also issued updates with clarifications regarding student loans with \$0 payment, the treatment of alimony paid by the borrower & mortgages paid by others. These three updates, summarized below, are effective immediately.

STUDENT LOAN CLARIFICATIONS Previously, Fannie Mae simplified the student loan policy and changed how to handle student loan payments on the credit report with a missing or \$0 payment amount. That policy stated the lender could use either 1% of the outstanding balance, or a calculated payment that would fully amortize the loan based on the documented loan repayment terms. With this update, we are further updating this policy and providing lenders with some additional options. If the lender obtains documentation to evidence the actual monthly payment is \$0, the lender may qualify the borrower with the \$0 payment as long as the \$0 payment is associated with an income driven repayment plan.

ALIMONY TREATMENT Fannie Mae now allows more flexibility on the treatment of alimony paid by the borrower. Lenders will now have the option of reducing the borrower's monthly qualifying income by the amount of the monthly alimony payment in lieu of including it as a monthly payment in the calculation of the debt-to-income (DTI) ratio. Going forward, lenders may choose to use either option – reducing income or treating it as a debt – when qualifying borrowers. When using the option of reducing the borrower's monthly qualifying income by the monthly alimony payment, enter the adjusted income figure as the income amount in DU. In this case, the lender can disregard the DU message requiring inclusion of the alimony obligation as a monthly liability that is issued whenever the borrower declares on the loan application that they are obligated to pay alimony. Note: The lender must still obtain documentation confirming the amount of the alimony obligation.

MORTGAGES PAID BY OTHERS Previously, Fannie Mae simplified the requirements for excluding non-mortgage debts from the DTI ratio when the monthly payment is paid by another party. With this update, they are addressing mortgages paid by others. When a borrower is obligated on a mortgage debt – but is not the party who is actually repaying the debt – the lender may exclude the monthly mortgage payment from the calculation of the DTI ratio if the party making the payments is obligated on the mortgage debt and can document the most recent 12-month payment history with no delinquencies.

Effective Date: *Immediately*

Guidelines: Guidelines are updated

Link: [Fannie Mae Announcement 17-06](#)

FANNIE MAE DU 10.1 REMINDER & MORE DETAIL- DISPUTED TRADES

Summary: This is a reminder of the previously announced Fannie Mae update that with DU version 10.1 the risk assessment and messaging for loan casefiles with disputed tradelines will be simplified. See below for more detailed information and examples.

- DU will assess the loan considering any disputed tradelines, and determine whether or not any investigation of the disputed tradelines is required.□
- The DU Underwriting Findings report will specify the steps the lender must take to investigate and document the disputed information, if required.

DISPUTED CREDIT REPORT TRADELINES

- When the credit report contains tradelines disputed by the borrower, DU will first assess the risk of the loan casefile using all tradelines, including those disputed. If DU issues an Approve recommendation using the disputed tradelines, no further documentation or action is necessary. DU will issue a message specific to this scenario.
- If DU does not issue an Approve recommendation when including the disputed tradelines, DU will reassess the risk without using the disputed tradelines. If DU is then able to issue an Approve recommendation, the lender must investigate the tradelines to determine whether the borrower is responsible for the accounts or if the account information is accurate or complete.
 - If the borrower is not responsible for the disputed accounts, the lender must obtain supporting documentation and may deliver the loan as a DU loan. No further action is necessary regarding the disputed tradelines.
 - If the borrower is responsible for the disputed account, the lender must investigate the information, including determining the aspect of the tradeline that is being disputed. If the borrower is able to provide documentation to disprove any adverse information (such as canceled checks), the lender may deliver the loan as a DU loan.
 - If the borrower is responsible for the disputed account and the account and tradeline information is accurate and complete, the loan is not eligible for delivery as a DU loan.

Notes:

- The monthly payments for the disputed tradelines must be included in the debt-to-income ratio if the accounts belong to the borrower.
- Tradelines reported as medical debt are not shown in the disputed tradeline message. Therefore, lenders are not required to investigate disputed medical tradelines.

EXAMPLES – DISPUTED TRADELINES

The following scenarios are examples of when a loan receiving an Approve/Eligible recommendation with the disputed tradeline(s) excluded from DU's risk assessment would be eligible for delivery as a DU loan:

- A borrower's account was referred for collection by the creditor. Subsequently, the borrower paid off the account, but the pay-off was not reported on the tradeline. The borrower requested that a dispute be placed on the tradeline. The tradeline information was accurate, but because it did not reflect that the borrower paid off the account, it may be considered incomplete. The borrower must provide documentation that the account was paid in full.
- A borrower and his son have the same name (Sr. and Jr.). The borrower's credit report contains a tradeline that actually belongs to the son. The tradeline is reported as disputed. The borrower can provide confirmation that he is not obligated on the account.
- The servicer of a disputed loan indicates a late payment in January of the previous year. The borrower can provide documentation (such as canceled checks or bank statements) that indicate that the payment was made on time.
- The following scenario is an example of when a loan receiving an Approve/Eligible recommendation with the disputed tradeline(s) excluded from DU's risk assessment would not be eligible for delivery as a DU loan:
 - The credit report indicates a disputed tradeline on the borrower's mortgage being refinanced. The tradeline indicates a 60-day late payment in January of the previous year. The borrower cannot provide any documentation to support that the payment was made on time.

Effective Date: *These changes were effective for new loan casefiles submitted to DU Version 10.1 on or after the weekend of July 29, 2017.*

6400 SERIES "FLEX" JUMBO UPDATES

Summary: The following changes and clarification are effective for all loan applications taken and/or loans that have not received an Underwriting Decision as of August 1, 2017:

- Public Record Search: Lender is responsible for verifying all existing public records to ensure that are no outstanding judgments or liens against all applicants. It is encouraged that Lenders use additional tools available (FraudGuard report, Lexis Nexis, reports, etc.) which leverage public, private and proprietary data sources that aid in assessing credit profile.
- Throughout guidelines: Replaced "HUD-1" with "Closing Settlement Statement"
- Clarified Declining Markets: Now reads as "If the subject property is located in a market area that the Appraiser indicates property values are declining or has defined the market area as a "distressed" market area, the LTV will be reduced by 10%."
- Occupancy – Investment Property: Now Reads as "Properties that do not meet the definition of Primary Residence or Second home are considered Investment Property."
- Updated Verbal Verification Of Employment. Now Reads: "A verbal verification of employment (VVOE) is required on every loan. The VVOE must be obtained within 10 business days of the Note Date. If the Information provided by independent third-party vendor (such as Work Number) is stale, lender must provide most recent paystub for pay period that is dated within 10 business days of the note date."
- Assets and Liquidity - Foreign Deposit. Removed last two bullets:
 - Proof of successful OFAC Scan on remitter must be in file
 - Enhanced Due Diligence must be collected on the Applicant in accordance with BSA policy
- Assets and Liquidity. Clarified Non Acceptable Funds. Tax Deferred Exchanges generally are not an acceptable source of funds; unless the subject transaction is a 1031 exchange.
- Updated Credit Report section in regards to Fraud Alerts. If any Fraud Alerts are noted, Lender must conduct review per policy and procedures and take measures to clear any findings.
- Asset Validation: removed the "Note" under stocks/bonds: Note: Stock options and non-vested restricted stocks are not permitted to be used as reserves.
- Non-Occupant Co-Borrower clarification. Previously read: "the occupant Applicant must evidence 5% of the required 10% own funds rule regarding the down payment from his/her own sources". Now Reads: "The occupant Applicant must evidence 5% of own funds for down payment (normally 10% own funds)."
- 2-4 Unit Residences. Removed the following from block: If the Applicant is not residing in one of these units, the property is considered investment property. Rental income from the subject property cannot be included for income calculation purposes, No longer applicable.
- Flood Insurance: Added Language: Flood insurance is required to be escrowed.
- Title Policy. Clarified text to indicate commitments/policies must be provided "with Endorsements".
- HOA/project Insurance. Added: Directors and Officers Liability Insurance.
 - The owners' association must have blanket Directors and Officers insurance policy payable to the Directors and Officer of a company or to the Organization(s) itself as indemnification (reimbursement) for losses or advancement of defense costs in the event an insured suffers such loss as a of a legal action brought for alleged wrongful acts in their capacity as directors and officers. Such coverage can extend to defense costs arising out of criminal and regulatory investigations/trials as well; in fact, often civil and criminal actions are brought against directors/officers simultaneously
 - The minimum policy is to cover \$1 million per occurrence
 - Deductible (maximum \$25,000)

Effective Date: *Effective for all loan applications taken and/or loans that have not received an Underwriting Decision as of August 1, 2017.*

Guidelines: Guidelines are updated

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

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