

BULLETIN #2017-36

TO: Distribution

DATE: August 23, 2017

RE: CMG Financial Correspondent Lending Updates

EFFECTIVE: As noted below

CMG FINANCIAL CORRESPONDENT LENDING UPDATES

Topics Covered in this Announcement:

- [New UCD Requirements](#)
- [Freddie Mac Conventional Conforming Updates- Rental Income](#)
- [Reminder- VA State Deviations](#)

NEW UCD REQUIREMENTS

Summary: To ensure Fannie Mae and Freddie Mac compliance, CMG will require that Correspondents submit Uniform Closing Dataset (UCD) files to both GSEs and provide evidence of a successful submission via the UCD Findings Reports. This requirement applies to all conventional loans with a Note dated on or after September 25, 2017.

Effective Date: *Notes dated on or after September 25, 2017 (conventional loans only)*

Action to Take: All conventional loans with Note Date of September 25, 2017 or later must include a successful and complete UCD Findings Report from both Fannie Mae and Freddie Mac. All pages of the UCD Findings Report must be provided, including all edit messages, and that the UCD Findings Reports are free from fatal errors.

Links:

- [UCD Implementation Update dated June 6, 2017.](#)
- [Fannie Mae UCD non sellers quick guide](#)
- [Freddie Mac UCD page](#)
- [Loan Closing AdvisorSM : The UCD Closing Solution for Correspondent Lenders](#)

FREDDIE MAC CONVENTIONAL CONFORMING UPDATES- RENTAL INCOME

Summary: Freddie Mac recently released selling guide bulletin 2017-12. This bulletin primarily addresses revisions to rental income requirements and guidance. The revisions include addressing evolving housing industry trends in the rental market such as short-term rental income and includes expanded requirements, additional specificity and guidance to support the determination of stability, reasonable expectation of continuance and calculation of rental income, resulting in continued support of purchase certainty. Updates are summarized below:

SHORT-TERM AND LONG-TERM RENTAL INCOME SOURCES: REFINANCE TRANSACTIONS FOR PROPERTIES OWNED IN THE PRIOR CALENDAR YEAR(S)

The changes below apply to refinance transactions when using rental income from properties owned in the prior calendar year(s) for:

- 2- to 4-unit Primary Residences

- 1- to 4-unit Investment Properties, and
- Non-subject investment properties

Short-term rental income sources:

- Added requirements and guidance to address the stability of rental income derived from short-term rental income sources (e.g., rental income from a source where a lease is not utilized) to support evolving housing industry trends in the rental market.
- A two-year history of rental income from a short-term source is required.
- The income must be documented on Schedule E and the property must have been used for the purposes of producing rental income for this period of time.
- Short-term rental income is typically fluctuating so historical analysis of the associated degree of volatility and/or irregularity is necessary to determine income stability.

LONG-TERM RENTAL INCOME SOURCES

Updated requirements for traditional rental market income sources (e.g., rental income from a one year lease).

- A one-year term lease lends support to income stability and continuance, so a one-year history of rental income reported on Schedule E is acceptable.
- Lenders may determine that rental income is stable without obtaining a current lease when it is evident that the source of rental income is not short term based on the documentation provided.

INCOME FROM RENTAL PROPERTIES NOT OWNED IN THE PRIOR CALENDAR YEAR

For Borrowers who do not have a documented one-year history of investment property management experience, the lender may only consider net rental income in an amount up to 30% of the sum of the net rental income and all other stable monthly income that is used to qualify the Borrower. This change provides support to sustainable and successful homeownership by requiring a reasonable limitation upon the reliance on a newer type of income stream.

GUIDE FORM 1000 AND COMPARABLE RENT DATA

Freddie Mac is reintroducing Guide Form 1000, Comparable Rent Schedule, for all 1-unit subject Investment Properties and providing requirements for the analysis of comparable rent data in both Form 1000 and Form 72, Small Residential Income Property Appraisal Report. As a result, they are retiring Form 998, Operating Income Statement.

EXPANDED REQUIREMENTS, ADDITIONAL SPECIFICITY AND GUIDANCE

Additional revisions include, but are not limited to the following:

- **Accessory units**– Specifying rental income may be used for an accessory unit in a 1-unit subject Investment Property and non-subject investment property. Rental income requirements and subject property appraisal requirements must be met.
- **Leases** - Specifying that leases must be current and fully executed, with a minimum original term of one year (with an allowance for a month-to-month term if in the automatically renewable stage) for all transaction types
- **Net rental income calculations**– Separating by documentation type (e.g., lease, comparable rent schedule, tax returns). Rental income calculation for subject 1- to 4- unit Investment Property and non-subject investment property is being revised to reflect calculation based on net rental income less the Mortgage payment rather than the net aggregate calculation. This calculation takes the monthly Mortgage principal payment into account. Adding Form 92, Net Rental Income calculations– Schedule E, to the Guide for use when calculating the net rental income using Schedule E.
- **Establishment of debt payment-to-income ratio**– Separating requirements by occupancy and property type and specifying treatment of multiple non-subject investment properties
- **Subject Investment Property** – Removing the requirement to verify operating expenses when rental income is not used to qualify
- **Non-subject investment properties** – Specifying the property type may be non-residential
- **Internal Revenue Service (IRS) Form 8825, Rental Real Estate Income and Expenses of a Partnership or an S Corporation**
 - Adding a cross-reference to Chapter 5304 in Section 5306.1(e) for the treatment of all rental real estate income reported on IRS Form 8825, as announced in Bulletin 2016-

- o Updating Sections 5306.1(e) and 5304.1(d) to specify that all rental real estate held in a partnership or S corporation is treated as self-employed income, regardless of the Borrower's ownership interest in the business

Action to Take: Additional detail is available in the full [Bulletin and its Attachment A](#)

Effective Date: *CMG's mandatory implementation date will be announced in the near future; however, changes may be implemented immediately.*

REMINDER- VA STATE DEVIATIONS

Summary: As a reminder, [Chapter 8](#) of the VA Lender's Handbook states Additional fees attributable to local variances may be charged to the veteran **only** if specifically authorized by VA. The lender may submit a written request to the Regional Loan Center for approval if the fee normally paid by the borrower in a particular jurisdiction and considered reasonable and customary in the jurisdiction. The VA posts a table with details of the current allowable state and territory fees and charges deviations (exceptions) from fees normally considered unallowable: http://www.benefits.va.gov/homeloans/documents/docs/state_deviations.pdf

Currently, per the table, the Wood destroying insect (pest) inspection fee may be paid by Veterans in the following nine states: AL, AR, AZ, CA, FL, LA, MS, OK, and TX.

Here is a screenshot from the table showing in Florida the pest inspection fee may be paid by Veterans:

States	Exception1	Exception2
DE	Closing Protection Letter: \$125	Interthinx DISSCO Fraud Report: \$25
FL	Closing Protection Letter \$50.00	Wood destroying insect (pest) inspection fee may be paid by Veterans

Effective Date: *Immediately*

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

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