

BULLETIN #2016-52

TO: Distribution

DATE: October 12, 2016

RE: CMG Financial Correspondent Lending Updates

EFFECTIVE: As noted below

CMG FINANCIAL CORRESPONDENT LENDING UPDATES

Topics Covered in this Announcement:

- **FHA Handbook Updates**

FHA HANDBOOK UPDATES

Summary: FHA has released a number of 4000.1 Handbook enhancements with the September 30th update. Significant updates are summarized and noted below. Verbiage that is italicized, bolded, and underlined is reflective of actual handbook verbiage changes.

- **Updated payment history requirements for No Cash-Out Refinances (Rate/Term, Simple, & Credit Qualifying Streamlines):** The handbook is updated/clarified to reflect that for manually underwritten loans the Mortgage payment history requirements apply to all mortgages on all properties.
- **HUD Repo with Repair escrow.** Increase from \$5,000 to \$10,000 for the maximum amount that buyers of HUD real estate owned (REO) homes are required to place into escrow for repairs on HUD REO properties that do not meet FHA's minimum property standards.
 - The HUD REO Property does not meet HUD's MPR in its as-is condition, but if repairs of no more than \$10,000 are completed, the HUD REO Property would meet HUD's MPR. An escrow account to complete the repairs necessary to meet MPR after closing is required.
 - The maximum escrow amount must be based on the sum of the repairs required to meet the intent of HUD's MPR, plus a 10 percent contingency. The total escrow amount, including the 10 percent contingency, must not exceed \$11,000.
 - For transactions eligible for \$100 Down with an eligible repair escrow, the maximum mortgage amount is calculated by subtracting \$100 from the sum of the Adjusted Value plus 110 percent of the estimated cost of repairs, not to exceed \$11,000.
 - Effective for case numbers assigned on or after October 31, 2016, after the repair escrow account is closed, the Mortgagee must complete the Escrow Closeout Certification screen in [FHAC](#) within 30 Days after the escrow account is closed.
 - **Additional updates/reminders based on ML 2015-17**
 - \$100 Down - Upfront Mortgage Insurance Premium may be financed with no restriction.
 - A new appraisal is required for all transactions. The REO Appraisal is used to establish the list price only.
 - Maximum mortgage amount is based on the Adjusted Value (original list price is not considered).
- **Existing Property:** Clarified that Properties less than one-year old subject to a second sale are treated like existing properties. FHA treats the sale of an occupied Property that has been completed less than one year from the issuance of the CO or equivalent as an existing Property.
- **Manual Downgrade Requirements.** Clarified guidance for when mortgage debt requires a downgrade to manual underwriting. The following text in italics & bolded is added to clarify when a manual downgrade is required:
 - the Mortgage Payment history **for any mortgage trade line reported on the credit report** used to score the application, requires a downgrade as defined in Housing

- Obligations/Mortgage Payment History
 - o the Borrower has undisclosed mortgage **debt that requires a downgrade**

When ***an existing*** debt or obligation that is secured by a Mortgage ***but is*** not listed on the credit report and not considered by the AUS is revealed during the application process, the Mortgagee must **obtain a verification of Mortgage directly from the Servicer. The Mortgage must be downgraded to a Refer and manually underwritten if the mortgage history reflects:**

- **A current delinquency:**
- **any delinquency within 12 months of the case number assignment date; or**
- **more than two 30 Day late payments within 24 months of the case number assignment date.**

A Mortgage that has been modified must utilize the payment history in accordance with the modification agreement for the time period of modification in determining late Mortgage Payments.

Property/Appraisal Updates and Clarifications

- **Appliances:** Clarified definition, standard, and reporting requirements for appliances.
 - o **Appliances refer to refrigerators, ranges/ovens, dishwashers, disposals, microwaves, and washers/dryers.**
 - o **Appliances that are to remain and that contribute to the market value opinion must be operational.**
 - o The Appraiser must note **all appliances that remain and contribute to the Market Value.**
 - o The Mortgagee must ensure that **appliances that are to remain and that contribute to the market value opinion are operations.**
- **Revised language about stationary storage tanks and MPR/MPS.** *If* the subject property line is located within 300 feet of an aboveground or subsurface stationary storage tank with a capacity of 1,000 gallons or more of flammable or explosive material, **then the Property is ineligible for FHA insurance, and the Appraiser must notify the Mortgagee of the deficiency of MPR or MPS.** This includes domestic and commercial uses as well as automotive service station tanks.
- **Mechanical Components and Utilities Updated language for appraisal of mechanical components and utilities.**
 - o The Appraiser must notify the Mortgagee **if mechanical systems do not appear:**
 - **to have reasonable future utility, durability, and economy;**
 - **to be safe to operate;**
 - **to be protected from destructive elements; or**
 - **to have adequate capacity.**
 - o The Appraiser must observe the physical condition of the plumbing, heating and electrical systems. The Appraiser must operate the applicable systems and observe their performance. If the systems **appear to be** damaged or do not **appear to** function properly, the Appraiser must condition the appraisal **for** repair or further inspection.
- **Clarified language for appraisal of plumbing systems.**
 - o The Appraiser must notify the Mortgagee of the deficiency of MPR or MPS if the plumbing system does not function to supply water pressure, flow and waste removal.
 - o The Appraiser must flush the toilets and operate a sample of faucets to **observe** water pressure and flow, to determine that the plumbing system is intact, that it does not emit foul odors, that faucets function appropriately, that both cold and hot water run, and that there **are** no readily observable evidence of leaks or structural damage under fixtures.
 - o The Appraiser must examine the water heater to ensure that it has a temperature and pressure-relief valve with piping to safely divert escaping steam or hot water.
 - o If the Property has a septic system, the Appraiser must examine it for any signs of failure or surface evidence of malfunction. If there are **readily observable** deficiencies, the Appraiser must require repair or further inspection.

Effective Date: Handbook enhancements were effective September 30th. CMG guidelines, including the Escrow Holdback Addendum, will be updated the week of October 10th.

Links/References:

- http://portal.hud.gov/hudportal/documents/huddoc?id=SFHB_Online_9_30_16Update.pdf
- <https://www.allregs.com/tpl/Main.aspx>
- Mortgagee Letter 2015-17: <https://portal.hud.gov/hudportal/documents/huddoc?id=15-17ml.pdf>

Please contact your Correspondent National Sales Manager

or your Correspondent Liaison with any questions.

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