CMG FINANCIAL
Correspondent Lending

BULLETIN # 2018-55

TO: Distribution

DATE: December 19, 2018

RE: CMG Financial Correspondent Lending Updates

EFFECTIVE: As noted below

CMG FINANCIAL CORRESPONDENT LENDING UPDATES

Topics Covered in this Announcement:

- IMAGIN: Re-Introducing Agency Paid Mortgage Insurance
- New Product Release- Home Possible High Balance
- Fannie Mae Updates- Commission Income and 2106 Expenses
- VA Loan Limits 2019
- FHA Loan Limits 2019
- Reminder- GNMA Cash OUt Seasoning Requirements
- In the News: VA Interim Final Rule on Cash Out Refinances

IMAGIN: RE-INTRODUCING AGENCY PAID MORTGAGE INSURANCE

Summary: Effective immediatley CMG is introducing separate product codes for agency paid mortgage insurance underwritten with LPA. These new codes, “Imagin”, are in addition to the existing “EPMI” codes. “EPMI” codes will now be used for loans underwritten with DU. The purpose of this transition is to make available the best pricing options for the agency paid mortgage insurance options.

Program Code	Program Name
	Conforming Loan Limits
101 IMAGIN	30Yr Fixed Conventional IMAGIN
102 IMAGIN	15Yr Fixed Conventional IMAGIN
103 IMAGIN	20Yr Fixed Conventional IMAGIN
104 IMAGIN	10Yr Fixed Conventional IMAGIN
125 IMAGIN	25Yr Fixed Conventional IMAGIN
1410 IMAGIN	10/1 ARM Conventional IMAGIN
1431 IMAGIN	3/1 ARM Conventional IMAGIN
1451 IMAGIN	5/1 ARM Conventional IMAGIN
1471 IMAGIN	7/1 ARM Conventional IMAGIN
	High Balance Loan Limits
101 HB IMAGIN	30Yr Fixed HB IMAGIN
102 HB IMAGIN	15Yr Fixed HB IMAGIN
125 HB IMAGIN	25Yr Fixed HB IMAGIN
1410 HB IMAGIN	10/1 ARM HB IMAGIN
1431 HB IMAGIN	3/1 ARM HB IMAGIN
1451 HB IMAGIN	5/1 ARM HB IMAGIN
1471 HB IMAGIN	7/1 ARM HB IMAGIN

Effective Date: *Immediately. Pricing will be differentiated for loans underwritten with DU ("EPMI") product codes and LP ("IMAGIN") product codes.*

NEW PRODUCT RELEASE: HOME POSSIBLE HIGH BALANCE

Summary: Freddie Mac now allows high balance loan amounts in conjunction with Home Possible loans. New product codes will be available beginning Monday, December 17th. Pricing is scheduled to be available by the end of next week.

Program Code	Program Name
	HomePossible High Balance
101HP HB	30YR FIXED HOME POSSIBLE HIGH BALANCE
102HP HB	15YR FIXED HOME POSSIBLE HIGH BALANCE
1451HP HB	5/1 ARM HOME POSSIBLE HIGH BALANCE
	HomePossible High Balance IMAGIN
101HP HB IMAGIN	30YR FIXED HOME POSSIBLE HIGH BALANCE IMAGIN
102HP HB IMAGIN	15YR FIXED HOME POSSIBLE HIGH BALANCE IMAGIN
1451HP HB IMAGIN	5/1 ARM HOME POSSIBLE HIGH BALANCE IMAGIN

Effective date: *Guidelines will be posted and products will be available on 12/17. Pricing in the pricing engine will be available later in the week.*

FANNIE MAE- COMMISSION INCOME & 2106 EXPENSE

Summary: Fannie Mae is removing the different treatment of commission income based on the percentage of employment income. Going forward all commission income will be treated the same, and individual tax returns (or tax transcripts) will no longer be required. Fannie Mae is updating our policy regarding commission income and unreimbursed business expenses due to recent changes made by the IRS that are effective with the reporting of 2018 federal income taxes.

Currently, unreimbursed employee expenses are reported as a deduction on the borrower's individual federal income tax return (IRS Form 2106, or IRS Form 1040, Schedule A or C). These expenses are used when calculating an automobile allowance and commission income when it is 25% or more of employment income.

As a result of the tax law changes that will prevent lenders from being able to identify unreimbursed business expenses, Fannie Mae is removing the requirements for IRS Form 2106, and changing the automobile allowance policy. The full amount of an automobile allowance may now be included as income and the lease or financing expenditure must be included as a debt in the calculation of the debt-to-income (DTI) ratio. (Note that a history of receipt of this income continues to be required.)

Effective Date:

- **Tax Returns/Tax Transcripts:** Lenders may implement these changes immediately and effective with the date of the Fannie Mae announcement are no longer required to obtain tax return documentation or tax transcripts to identify unreimbursed business expenses. The DU messages reflecting these changes will be updated in a future release. Until then, lenders may disregard the requirement to obtain IRS Form 1040 or Form 2106 for commission income and automobile allowance.
- **Automobile Allowance:** Loan files that include qualifying income from an automobile allowance that is calculated following the "actual cash flow approach" must continue to include IRS Form 2106. This includes the practice of directly offsetting an automobile lease payment with an automobile allowance if the lease payment is captured as an expense on Form 2106.
- **Day1 Certainty Impact:** Until the DU validation service is updated, lenders must continue to obtain a tax transcript for borrowers with commission income that is 25% or more of employment income to be eligible for income validation.

Link: https://www.fanniemae.com/content/announcement/sel1809.p

VA LOAN LIMITS 2019

Summary: VA has released circular 26-18-27 announcing effective loan limits for loans closed on or after January 1, 2019.

It is important to note that VA does not impose a maximum loan amount that a Veteran may borrow to purchase a home; instead, the law directs the maximum amount that VA may guarantee on a home loan. Because most VA loans are pooled in securities that require a 25 percent guaranty, the effective no-downpayment loan limit on VA loans is typically four times VA's maximum guaranty amount. Lenders may make loans greater than the effective loan limit; however, the Veteran may be required to make a downpayment; typically 25 percent of the difference between the loan amount and the county loan limit. Downpayments required on VA loans are typically far less than downpayments required on other loan products.

Effective Loan Limit Calculations. The 2019 effective loan limits are posted at:
https://www.benefits.va.gov/homeloans/purchaseco_loan_limits.asp

Note that for purposes of determining the VA guaranty, lenders are instructed to reference only the OneUnit Limit column in the Federal Housing Finance Agency (FHFA) Table "Loan Limits for Calendar Year 2019-All Counties"**https://www.fhfa.gov/DataTools/Downloads/Pages/Conforming-Loan-Limits.aspx**
While a Veteran may use the VA home loan guaranty benefit to acquire a property up to 4-units in size, VA's maximum guaranty amount will be based on the One-Unit (single-family residence) limit, as prescribed by FHFA in the aforementioned table.
For example, if a Veteran plans to purchase a four-unit dwelling for $700,000, in a county where the FHFA OneUnit (single-family residence) limit is $484,350, then VA's maximum guaranty amount would be 25 percent of the $484,350."

Effective Date:

- All loans, excluding IRRRLs, closed on or after January 1, 2019, will be eligible for the higher loan limit.
- Lender Actions after Closing for Lower-Limit Counties. VA will honor the previous year's higher

limit on all loan types, except IRRRL. Note that VA will only permit the use of the previous year's higher limit for loan applications signed by all parties prior to January 1, 2019.

Link: https://www.benefits.va.gov/homeloans/documents/circulars/26_18_27.pdf

FHA LOAN LIMITS 2019

Summary: FHA released Mortgagee Letter 2018-11. FHA mortgage limits for calendar year 2019 are effective for case numbers assigned on or after January 1, 2019. There are no jurisdictions with a decrease in loan limits from the 2018 levels. To enable Mortgagees to easily identify areas with loan limit increases, FHA has published a separate list of counties with loan limit increases. Mortgagees may view this list along with a list of areas at the ceiling and a list of areas between the floor and ceiling on the Maximum Mortgage Limits web page at:http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/lender/origination/mortgage_limits

Select the links below for additional mortgage limits guidance for mortgages:

- Areas at Ceiling
- Areas Between Floor and Ceiling

The **FHA national low-cost area** mortgage limits, which are set at 65 percent of the national conforming limit of $484,350 for a one-unit property, are, by property unit number, as follows:

• One-unit: $314,827 (was $294,515)
• Two-unit: $403,125 (was $377,075)
• Three-unit: $487,250 (was $455,800)
• Four-unit: $605,525 (was $566,425)

High-cost Area The FHA national high-cost area mortgage limits, which are set at 150 percent of the national conforming limit of $484,350 for a one-unit property, are, by property unit number, as follows:

• One-unit: $726,525 (was $679,650)
• Two-unit: $930,300 (was $870,225)
• Three-unit: $1,124,475 (was ($1,051,875)
• Four-unit: $1,397,400 (was $1,307,175)

Nationwide Mortgage Limits Special Exceptions for Alaska & Hawaii. Mortgage limits for the special exception areas of Alaska (AK) and Hawaii (HI) are adjusted by FHA to account for higher costs of construction. These four special exception areas have a higher ceiling as follows:

• One-unit: $1,089,787 (was $1,019,475)
• Two-unit: $1,395,450 (was $1,305,325)
• Three-unit: $1,686,700 (was $1,577,800)
• Four-unit: $2,096,100 (was $1,960,750)

Effective Date: FHA mortgage limits for calendar year 2019 are effective for case numbers assigned on or after January 1, 2019.

Link: **https://www.hud.gov/sites/dfiles/OCHCO/documents/18-11hsgml.pdf**

REMINDER: GNMA CASH OUT SEASONING REQUIREMENTS

Summary: As a reminder, the GNMA seasoning requirements must be met for all VA Regular Refinance transactions and all FHA cash out refinances; not just VA to VA refinances or FHA to FHA refinances. If the lien to be paid off is not guaranteed by the VA or insured by FHA the seasoning requirement still applies.

The note date of the refinance loan must be on or after the later of:

- the date that is 210 days after the date on which the first monthly payment was made on the mortgage being refinanced, and
- the date on which 6 full monthly payments have been made on the mortgage being refinanced.

Note: In order to correctly calculate for VA loans, documentation will need to be obtained that documents when the first payment was made on the lien being refinanced.

Effective Date: *n/a, reminder*

Links: **VA Circular 26-18-13, GNMA APM 18-04**

IN THE NEWS: VA INTERIM FINAL RULE ON CASH-OUT REFINANCES

Summary: The VA is amending its rules on cash-out refinance loans via an interim final rule. This interim final rule is now available on the Federal Register website and it defines the parameters of when VA will permit cashout refinance loans, to include defining net tangible benefit, recoupment, and seasoning requirements. This internal final rule is expected to be published on Monday December 17th and will be effective 60 days later.

VA Cash Out Refinances will now include two categories:

- cash-outs in which the principal for the new loan is equal to or less than the pay-off amount on the refinanced loan (Type I Cash-Outs)
- cash-outs in which amount of principal for the new loan is larger than the pay-off amount (Type II Cash-Outs)

Action to Take: Watch for additional details regarding new net tangible benefit, recoupment, seasoning and disclosure requirements.

Effective Date: *Expected to be 60 days from Monday, December 17th.*

Link: **https://s3.amazonaws.com/public-inspection.federalregister.gov/2018-27263.pdf**

Please contact your Correspondent National Sales Manager

or your Correspondent Liaison with any questions.