CMG FINANCIAL
Correspondent Lending

BULLETIN #2014-38

TO:	Distribution	**DATE:**	December 23, 2014
RE:	Policy, Program Matrices and Guideline Updates and Non-Agency LLPA Changes	**EFFECTIVE DATE:**	Immediately

Items covered in this announcement:

- Income Validation Policy update
- New VA Fees Policy
- Clarifications: Loan Program Matrices & Guidelines
- Fannie Mae Updates SEL 2014-16
- 600-Series, Non-Agency Product LLPA changes

Income Validation Policy Update

Effective: Immediately

CMG Financial Correspondent Lending's Income Validation Policy is updated to include clarifications regarding IRS transcript review and requirements for documentation of taxpayer identification theft.

- The IRS transcripts should be reviewed to ensure income is calculated properly, the DTI includes all required debts and all required items are addressed. Income validated through the IRS must be materially correct for the loan to be eligible for purchase consideration by CMG.
- Taxpayer identification theft occurs when a taxpayer's stolen Social Security number is used to file a forged tax return and attempt to claim a fraudulent refund. When a borrower is a victim of taxpayer identification theft, the Seller must secure from the borrower additional primary documentation and validate the information via secondary documents.

Please refer to CMG's Correspondent Income Validation Policy for complete details.

New VA Fees Policy

Effective: Immediately

Recently, a number of questions have arisen regarding CMG's policy regarding allowable fees for VA loans. To address those questions for the benefit of all Sellers, CMG Financial has issued a VA Fees Policy. For complete details regarding allowable and unallowable VA fees, please refer to CMG's VA Fees Policy.

Clarifications: Loan Program Matrices & Guidelines

Effective: Immediately

VA Maximum DTI
REMINDER: As per CMG's published VA guidelines and loan program matrix, generally the Veteran's total debt ratio is limited to a maximum of 41% for manually underwritten loans; however, it should not exceed 43%. Sellers may refer to the Underwriting Method of the VA Loan Program Matrix for additional parameters for manually underwritten loans.

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Higher maximum DTI ratios are permitted if approved by an AUS; however, it should not exceed 52% backend. Loans with a backend ratio greater than 41% require a statement justifying the reasons for approval unless residual income exceeds the guideline by at least 20%.

Please refer to the VA Loan Program Matrix and Guidelines for complete details.

Payoff or Pay-down of Debt

Summary: Payoff or pay-down of debt solely to qualify must be carefully evaluated and considered in the overall loan analysis. The borrower's history of credit use should be a factor in determining whether the appropriate approach is to include or exclude debt for qualification.

- Revolving debt cannot be not be paid down to qualify.
- Revolving debt may be paid off to qualify at underwriter discretion subject to agency eligibility.

New requirement regarding closing revolving accounts paid off to qualify:

- Conventional Conforming loans underwritten with DU continue to require that –
    - If a revolving debt is to be paid off but not closed, a monthly payment on the current outstanding balance should be considered in the borrower's DTI ratio.
    - If a revolving account is to be paid off and closed, a monthly payment on the current outstanding balance does not need to be included in the borrower's DTI ratio.
- For FHA, VA and Conventional Conforming loans underwritten with LP, underwriter has discretion upon review the overall loan analysis to determine if a revolving debt is eligible to be paid off to qualify and if so, whether it must be closed prior to or at closing.

Old Requirement:

- *For purchase and rate/term refinance transactions, revolving debt may be paid off to qualify when proof of the debt being paid and closed prior to loan closing is available.*
- *In the case of a cash out refinance, the debt must be closed prior to loan closing or may be paid off at closing with loan proceeds and as such shown on the HUD-1.*

Conventional Program Clarifications

Summary: Correspondent Conventional Guidelines and Fannie Mae/Freddie Mac Loan Program Matrices will be updated with the following clarifications:

Conventional Guidelines

- Section B-1 "Multiple Loans to One Borrower" is only applicable to CMG's Consumer Services and Wholesale.
- Section B-2 reflects that Freddie Mac does not limit the number of financed properties a borrower owns when the subject property is a primary residence.
- Sections C-1 & C-3 indicates the Fannie Mae does not require Rent Loss, however, all Freddie Mac requirements regarding rent loss must be met. CMG follows agency requirements in regards to rent loss.
- Section D-1 clarifies that Correspondents can follow agency requirements for "Age of Documents".
- Section D-4 Fraud Detection Section indicates it is a *best practice* for Correspondent Lenders to review and address High Risk Items on the fraud report.
- Section G-9 Military Income to remove reference to 3 year continuance for BAQ. CMG follows agency requirements in regards to documenting military income.
- Section J-3 Manufactured home section to reflect that CMG offers fixed rate only loans in conjunction with manufactured homes. Removed references to max LTV/CLTV for ARM transactions.

- Social Security and Disability Income sections updated for more clarity.
- Agency requirements must be met for documenting "current receipt" of social security income.
- Pay off revolving debt requirements clarified to apply to either DU or LP underwritten loans.
- Tax Transcript section updated to refer to CMG's Income Validation Policy to have one source for this information.
- Appraisal section clarified that appraisals must be ordered through approved CMG AMCs only applies to CMG's Consumer Services/Wholesale.

Fannie Mae Loan Program Matrix

- Update to align with previously announced enhancements for 97% LTV Options.
- DU Refi Plus loans on manufactured homes clarified to emphasize they must meet all Fannie Mae eligibility criteria and home built prior to 1995 are eligible.

Freddie Mac Loan Program Matrix

- Appraisal section clarified regarding reduced field work options are possible for agency products based on AUS Findings and agency eligibility
- Home Possible and Home Possible Advantage loan programs are not eligible.

FHA Program Clarifications

Summary: Correspondent FHA Guidelines and Loan Program Matrix will be updated with the following clarifications:

FHA Guidelines

- Section D-4 Clarifying Fraud Detection Section to indicate that it is a *best practice* for Correspondent Lenders to review and address High Risk Items on the fraud report.
- Section G Social Security and Disability Income sections updated for more clarity.
- Clarified Section G-9 Military Income to remove specific reference to 3 year continuance for BAQ. CMG follows FHA requirements in regards to documenting military income.
- Section I-2 Clarified that FHA requirements must be met for open, 30-day accounts.
- Section J-4 Appraisal Documentation section, updated to clarify that "appraisals must be ordered through approved CMG AMCs" only applies to CMG's Consumer Services/Wholesale.

FHA Loan Program Matrix

- Reference under High Balance to refer to Credit – Derogatory Credit for additional restrictions for prior Bankruptcy and/or Foreclosure will be removed. The Derogatory section requires that Correspondent Lenders follow FHA requirements for both standard loan amounts and high balance loan amounts.
- From the Eligible Transactions section, removed the requirement for Net Tangible Benefit Worksheet to apply to all transactions. Please note, that NTB must be documented as required by state law and/or as required by FHA for refinance transactions.
- In the Program section, to avoid confusion, "Ineligible Programs" updated to reflect that "Rebuttable presumption" loans are not eligible (previously stated HPML loans ineligible).
- Income/4506T Income Validation section, updated CMG's Income Validation Policy to have one Tax Transcript source for this information.
- Rental Income section will be clarified to indicate that CMG follows FHA requirements for documenting rental income on 2-4 unit properties for units not occupied by the borrower.

Fannie Mae Updates – SEL 2014-16

Effective: Immediately

Summary: On December 16, 2014 Fannie Mae released SEL-2014-16 noting a number of policy changes that are effective immediately and some that lenders may implement immediately but must do so for applications dated on or after April 1, 2015. Please see the below for a CMG summary based on the Fannie Mae release:

- **Solar Panels.** CMG will purchase loans on properties with solar panels when the borrower owns the equipment as allowed by Fannie Mae. However, loans with solar leases and power purchase agreements are not eligible at this time regardless of Fannie Mae acceptability.
- **Adjustments to Comparable Sales.** Fannie Mae has eliminated the 15% and 25% gross adjustment guidelines and has provided clarification with respect to Fannie Mae's expectations for the appraiser to analyze the market for competitive properties and provide appropriate market based adjustments without regard to limits on the size of the adjustments.
- **Flood Insurance for Nonresidential Detached Structures.** Fannie Mae is aligning the selling guide with federal law. Fannie Mae will now require flood insurance if any part of a principal and/or residential detached structure is located with an SFHA. CMG continues to align with agency and federal laws regarding flood insurance. Refer to Fannie Mae selling guide for additional details.

The following are pending review and, if applicable, future communication will be released if there is either a CMG guideline update required or if CMG effective dates differ from the Fannie Mae effective date:

- **Self-Employed Income policy updates**
- **Payment Calculation for Student Loans**
- **Documentation Update (documents produced by technology)**

Reference: Fannie Mae Selling Guide Announcement SEL-2014-16

600-Series, Non-Agency LLPA Changes

Effective: Loans Locked on or after Wednesday, December 24, 2014

CMG continuously reviews the pricing of all loan program offerings. The 600-Series, Non-Agency program has simplified State adjustments and a variety of changes to loan level price adjustments. Please refer to the December 24, 2014 rate sheet for complete details.

Please contact your Correspondent Regional Manager or your Correspondent Liaison with any questions.

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