MEMO #2017-31

TO: Wholesale Broker & Select Partner Clients
RE: CMG Credit Policy and Guideline Updates

DATE: June 27, 2017
EFFECTIVE: As noted below

CMG FINANCIAL CREDIT POLICY AND GUIDELINE UPDATES

Topics Covered in this Announcement:

- Disaster Policy Reminder: It is Hurricane Season
- CMG Property Standards Reminder and Clarification
- Jumbo Guideline Updates
- Reminder: Credit Report Changes Effective July 1, 2017
- Tips of the Week

DISASTER POLICY REMINDER: IT IS HURRICANE SEASON

Summary: As the coastlines prepare for this year’s tropical storm and hurricane season this is a reminder of CMG’s disaster policy and the impact to loan closings when a disaster does strike.

The designation of an area as a “disaster area” for the purpose of CMG’s Disaster Policy is made by CMG Corporate Credit and can be based on a federally or state declared disaster area (FEMA or state/federal agency), or through knowledge of a disaster as a result of news and media or personal contacts. When a property is located in a Disaster Area, CMG must verify the structure is sound and not negatively impacted by the Disaster. This must be verified prior to closing / purchasing the loan.

- CMG will require recertification from the appraiser on all loans located in the affected Counties prior to closing / purchase;
- If the county is indicated as being in a declared disaster area, the policy must be adhered to;
- The Disasters are referenced with both an incident start date and an incident ending date. The property is considered potentially impacted for 120 days from the incident END date to the date of the property inspection or valuation date;
- If a full appraisal was obtained on the property prior to the declared disaster’s incident end date, the inspection must verify the property is sound and habitable and in the same condition as when it was appraised. Any of the following options are acceptable to satisfy this requirement:
  - A 1004D Final Inspection or Appraisal Update signed by the original appraiser
  - FNMA 2075 – Desktop Underwriter Property Inspection Report
  - DAIR – Disaster Area Inspection Report
- Full appraisals obtained after the declaration need to indicate the property has not been impacted by the disaster;
- If the loan qualified for a non-standard appraisal (Property Valuation Update, PIW, 1075, 2055, 2075, 2095) and a Disaster has been declared prior to funding or purchase, a full appraisal with interior and exterior inspection dated after the incident period end date is required. The non-standard appraisal product is not permitted for 120 days after the disaster incident period end date;
- FHA Streamline loans without an appraisal will require an exterior inspection from an FHA approved appraiser;
- VA IRRRL’s do not require any additional inspections;
DU Refi Plus and LP Open Access transactions with or without Appraisal Waivers are excluded; 
In addition, refer to Disaster Area Policy for additional specific guidance for VA loans with appraisals.

**Wholesale and Select Partner:** Clients will be required to furnish CMG with the proper recertification prior to loan approval or purchase.

**Links:**
- CMG Disaster Policy
- https://www.fema.gov/disasters
- NOAA National Hurricane Center

**Effective Date:** Reminder

**CMG PROPERTY STANDARDS REMINDER AND CLARIFICATION**

**Summary:** On-site wastewater treatment systems other than acceptable septic systems are not eligible. Examples of unacceptable systems include, but are not limited to, the following:
- Vault Privy
- Incineration Toilets
- Composting Toilets
- Chemical Toilets
- Outhouses

**Effective Date:** Immediately.

**JUMBO GUIDELINE UPDATES**

**Summary:** The Premier 6200, Expanded 6600, Simply 6700, Premier Non-QM 7200, & Expanded Non-QM 7600 Series Jumbo programs are updated as follows:
- Added to Ineligible Borrowers section that Borrowers with any ownership in a business that is federally illegal, regardless if income is not being considered for qualifying are ineligible borrowers.
- Simplified the student loan calculation to align with Fannie Mae’s update.
- Updated to add new names:
  - 6200 - Premier Jumbo.
  - 6600 – Expanded Jumbo.
  - 6700 – Simply Jumbo.
  - 7200 – Premier Non-QM
  - 7600 – Expanded Non-QM

**Effective Date:** Immediately

**REMARKER: CREDIT REPORT CHANGES EFFECTIVE JULY 1, 2017**

**Summary:** In an effort to make credit reports more accurate, all three credit reporting agencies: Equifax, Experian, and TransUnion will no longer provide information regarding civil judgments and tax liens on reports as of July 1, 2017. Most tax liens and civil judgments will not appear on credit reports. The impact to the borrower’s credit scores is anticipated to be minimal. There are no changes to the current reporting of foreclosure and bankruptcy data. See below for a summary of guidance provided at this time by different agencies:

**Fannie Mae** has provided the following guidance:
- Lenders can continue to rely on the Desktop Underwriter® (DU®) risk assessment and recommendation.
- There will be no changes to our current policy requiring delinquent credit, including judgments and liens, to be paid off at or prior to closing.
We are not requiring lenders to use sources other than the loan application, credit report, and preliminary title report to identify potential civil judgments and tax liens. We continue to require lenders to address outstanding judgments and liens they become aware of prior to closing.

USDA is stating there will be no updates to HB-1-3555 and the following will continue to apply for Single Family Housing Guaranteed Loans:

- Lenders must secure a marketable first lien as required in 7 CFR Part 3555, 3555.204 and HB-1-3555 Chapter 16.
- USDA's current policy regarding judgments and tax liens in 3555.151(i)(5) and HB-1-3555 Chapter 10: 10.10 and Attachment 10-B will apply.
- If a lender identifies a judgment or tax lien for a GUS “Accept” loan file, the manual entry of the debt on the “Assets and Liabilities” application page will not require the file to be downgraded. The GUS “Accept” recommendation remains valid and the lender must appropriately underwrite the loan file under the requirements of 7 CFR 3555 and HB-1-3555.

VA: VA is aware of the change and is not making any policy changes with regards to tax liens and judgments at this time. The lender is still responsible to ensure that there are no outstanding judgments that may jeopardize the lien position of the VA guaranteed loan.

Action to Take: Carefully review the borrower’s loan application, credit report, preliminary title report and any other loan documents for tax liens or judgements. Any tax liens or judgments must be appropriately addressed. FHA/VA loans must be manually downgraded if there is a tax lien/judgment that shows up in the file but is not considered in AUS.

Link: Fannie Mae [Lender Letter LL-2017-02]

Effective Date: July 1, 2017

TIPS OF THE WEEK

Does CMG require non-married co-borrowers to be on separate 1003s?

Non-married co-borrowers may be on the same 1003 but they are not required to be on the same 1003.

The instructions on the 1003 must be followed if borrowers want to apply jointly. Generally, non-married borrowers only apply jointly if credit, assets and liabilities are sufficiently joined.

From top of 1003:

If this is an application for joint credit, Borrower and Co-Borrower each agree that we intend to apply for joint credit (sign below):

Borrower

Co-Borrower

At the top of the Assets and Liabilities section of the 1003:
Below is a summary of Fannie Mae and Freddie Mac guidance when self-employment income self-employment is disclosed on Form 55, Uniform Residential Loan Application (or other documentation) but not used to qualify:

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<tr>
<th>Fannie Mae</th>
<th>Freddie Mac</th>
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<td>Fannie Mae does not require lenders to review or document income from secondary sources when that income is not needed to qualify. Business-related debt for which the borrower or co-borrower is personally obligated would likely be on their credit report and therefore already included in the debt-to-income ratio. As a practical consideration, borrowers with a primary source of income that is not derived from self-employment and is sufficient to cover the obligation have more flexibility and could continue a secondary self-employment activity should it prove unprofitable. Consequently, it is our view that if the income not derived from self-employment is sufficient to qualify the borrower, no further inquiry regarding any secondary business losses is required.</td>
<td>If the Borrower is self-employed and the self-employment is not considered for qualification purposes, the lender must obtain pages 1 and 2 of the Borrower’s federal individual income tax returns, and the applicable schedules (e.g., Schedule C, Schedule E), to determine if there is a business loss that may have an impact on the stable monthly income.</td>
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<td>As a general rule, there is no ATR requirement for creditors to identify and examine losses or expenses related to income that the borrower does not declare as income for the purposes of obtaining a mortgage loan. However, such expenses, to the extent the creditor is aware of them, may be relevant for the determination of “residual income,” which is a concept applicable to qualified mortgages that do not qualify for “safe harbor” treatment (i.e., Higher-Priced Mortgage Loans [HPMLs]). Residual income is not an ATR requirement, but only a factor in determining whether HPMLs that are qualified mortgages can retain that status if challenged by the borrower. Safe harbor [non-HPML mortgages] cannot be challenged on residual income grounds.</td>
<td>• If a business loss is reported and the Borrower qualifies with the loss, then the lender is not required to obtain any additional documentation relating to the business loss.</td>
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<td>• If a business loss is reported and the Borrower does not qualify with the loss, then the underwriter must perform a business and income analysis to determine whether depreciation adjustments or other factors such as business closure or evidence of a one-time non-recurring event justify a reduction of the reported loss when calculating the stable monthly income. The lender must obtain additional documentation needed in order to fully evaluate the loss and support the analysis (e.g., business tax returns [final or otherwise], evidence of a one-time non-recurring event).</td>
<td>If the tax returns or other documentation in the Mortgage file (e.g., IRS tax transcripts, additional Schedule K-1s) reflect positive income from self-employment but that income is not used to qualify, additional documentation (e.g., complete business or federal individual income tax return(s)) is not required.</td>
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Reminder: If tax returns are required for income analysis, income/loss is to be validated via transcripts.

Contact your Account Executive or Client Success Expert for full details

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