CMG FINANCIAL
Correspondent Lending

TO: Distribution

DATE: January 20, 2021

RE: CMG Financial Correspondent Lending Updates 2021-02

EFFECTIVE: As noted below

CMG FINANCIAL CORRESPONDENT LENDING UPDATES

Topics Covered in this Announcement:

- Conventional Conforming SOFR ARMs Release
- Fannie Mae Updates- Multiple Topics

CONVENTIONAL CONFORMING SOFR ARMS RELEASE

Summary: Effective immediately, CMG will offer SOFR ARMs for conventional conforming products. These replace the previously retired LIBOR ARMS and include standard conventional conforming, Agency Paid Mortgage Insurance products, Fannie Mae HomeReady, Freddie Mac Home Possible, and the GSE High LTV programs.

- 3 Year (3yr/6m) Caps 2/1/5 (initial/periodic/lifetime)
- 5 Year (5yr/6m) Caps 2/1/5 (initial/periodic/lifetime)
- 7 Year (7yr/6m) Caps 5/1/5 (initial/periodic/lifetime)
- 10 Year (10yr/6m) Caps 5/1/5 (initial/periodic/lifetime)

As it was with LIBOR ARMs, the following continue to apply:

- there is no change that an ARM with an initial fixed-rate period of five years or less by qualifying borrowers based on the greater of either:
  - the note rate plus 2%, or
  - the fully indexed rate with a fully amortizing repayment schedule (including taxes and insurance).
- Manufactured Homes require a fixed rate period of greater than five years. (Only fully amortizing adjustable-rate mortgages with initial fixed-rate periods of 7 years or 10 years are permitted
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Effective Date: *Immediately*
Standard conventional product codes are referenced in the Correspondent Selling Guide vs guidelines.
However, the Correspondent matrices do include product codes for APMI, Home Possible, Home Ready, and the high LTV programs

FANNIE MAE UPDATES- MULTIPLE TOPICS

Summary: CMG aligns with recent Fannie Mae updates to the following topics in the selling guide. Effective date is as noted below for each individual topic**.**

Retirement, government annuity, and pension income and employment-related assets as income
Updates to requirements related to the use of retirement, government annuity, and pension income are as follows:

- added financial and bank account statements to the list of eligible documents to show current receipt of income;
- clarified the requirements for documenting income from a pension or annuity account when the income will begin on or before the first payment date of the new loan;
- clarified that a three-year continuance of income is only required for retirement income paid in the form of a distribution from a 401(k), IRA, or Keogh retirement account;
- are allowing eligible retirement account balances to be combined for the purpose of determining the continuance; and
- removed the requirement to reduce the value of retirement assets consisting of stocks, bonds, and mutual funds by 30% when measuring the three-year continuance for retirement income, and for calculating net documented assets when employment-related assets are used as income.

Effective: Lenders may take advantage of these policy changes immediately but must apply the changes to loans with application dates received on or after February 15, 2021. The retirement income message in DU will be updated in a future release to reflect these changes.

Sale of personal assets: Updated documentation requirements for the sale of personal assets to reflect the following:

- limiting the requirement to provide proof of the borrower's ownership of the asset to only those assets that have a title, for example an automobile title;
- limiting the requirement to obtain an independent valuation of the asset to only those cases where the proceeds from the sale exceed 50% of the total monthly income used in qualifying.

With this update that provides clearly defined guidelines, they are removing the prior policy that allowed for alternative documentation if the proceeds from the sale represented a minor percentage of the borrower's overall financial contribution.

As a reminder, proceeds from the sale of personal assets are an acceptable source of funds for the down payment, closing costs, and reserves provided the individual purchasing the asset(s) is not a party to the mortgage transaction.

Effective: Lenders may take advantage of these policy changes immediately

Pro-rated real estate tax credits
Fannie Mae has clarified that pro-rated real estate tax credits provided by the seller at closing in places where real estate taxes are paid in arrears cannot be considered when determining if the borrower has enough funds for the transaction. The lender must continue to verify that the borrower has sufficient assets from the list of eligible sources contained in their Guide. In addition, they clarified that a pro-rated tax credit is not an interested party contribution.

Effective: This clarification is effective immediately.

Link: Bulletin 2020-07

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