CMG FINANCIAL CORRESPONDENT LENDING UPDATES

Topics Covered in this Announcement:

- Updated Fraud Alert- Fifteen More Fictitious Employers
- USDA Handbook 3555.1 Updates
- CMG to Allow VA Appraisals under VA's New Assisted Appraisal Processing Program

UPDATED FRAUD ALERT; FIFTEEN MORE FICTITIOUS EMPLOYER IN CA

Summary: Fifteen apparently fictitious employers have been added to the Fannie Mae Fraud Alert, “Misrepresentation of Borrower Employment,” originally posted on May 24, 2018. View the updated fraud alert and other resources on the Fannie Mae Mortgage Fraud Prevention page.

<table>
<thead>
<tr>
<th>Fictitious Name</th>
<th>Street Address Associated</th>
<th>City</th>
</tr>
</thead>
<tbody>
<tr>
<td>BK Precision</td>
<td>E. Lowell St.</td>
<td>Ontario</td>
</tr>
<tr>
<td>CY Petfood</td>
<td>Boyle Ave.</td>
<td>Los Angeles</td>
</tr>
<tr>
<td>Galaxy's Auto Parts and Accessories</td>
<td>Stellar Dr.</td>
<td>Culver City</td>
</tr>
<tr>
<td>GBF Freight System</td>
<td>Easton Dr.</td>
<td>Bakersfield</td>
</tr>
<tr>
<td>Gold Coast Transport</td>
<td>Imhoff Dr.</td>
<td>Concord</td>
</tr>
<tr>
<td>Golden State Electronics</td>
<td>Evans Avenue</td>
<td>San Francisco</td>
</tr>
<tr>
<td>Gonz Fidel Books and Engineering</td>
<td>N. Milpitas Blvd.</td>
<td>Milpitas</td>
</tr>
<tr>
<td>Ideal Pro Systems, Barnard Avenue</td>
<td>Barnard Avenue</td>
<td>San Jose</td>
</tr>
<tr>
<td>Public Mark Productions</td>
<td>Sherman Way</td>
<td>Reseda</td>
</tr>
<tr>
<td>Ricardo’s Beauty Wholesale Supplies</td>
<td>Pirrone Rd.</td>
<td>Salida</td>
</tr>
<tr>
<td>Rodell Network Communications</td>
<td>Lakeside Drive</td>
<td>Santa Clara</td>
</tr>
<tr>
<td>Sac Bar and Kitchen Supplies</td>
<td>Raley Blvd.</td>
<td>Sacramento</td>
</tr>
<tr>
<td>San Fernando Service</td>
<td>Sherman Way</td>
<td>North Hollywood</td>
</tr>
<tr>
<td>Senior Home Health Care</td>
<td>Industrial Blvd.</td>
<td>Victorville</td>
</tr>
<tr>
<td>West LA Dental Studio</td>
<td>Overland Ave.</td>
<td>Los Angeles</td>
</tr>
</tbody>
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Please review the full Fannie Mae Fraud Alert for additional information on red flags & examples.

Effective Date: Immediately.

USDA HANDBOOK 3555.1 UPDATES

Summary: Please see below for various updates from USDA including the removal of the maximum interest rate cap and various handbook updates:
Removal of Max Interest Rate Cap: PN 529 issued October 4, 2019 announced the removal of the maximum interest rate cap. CMG ratesheets no longer reflect the cap as Conditional Commitments issues after 10/1/2019 are not subject to the cap. If the conditional commitment was received prior to 10/1 and the loan was locked after 10/1, caution must be used to confirm the conditional commitment is valid. In certain cases, it may need to be resubmitted to USDA for re-issuance.

In addition, PN 529 also announced revisions to chapter 9 to provide lenders clarification and guidance on evaluating acceptable income types and timeframes. It allows lenders additional flexibility in determining applicant’s stable and dependable income.

- Added a bullet to provide guidance on the use of income that will not continue for the entire ensuing 12 months for annual income calculations.
- Added bullet to outline the information required in paystubs/earnings statements for use as a verification source.
- Added bullets that specify requirements for information in W-2 forms and required tax return documents for self-employed applicants for income verification purposes.
- Clarified language pertaining to self-employed applicant’s required income documentation and defined sharp increases and decreases in self-employment income that must be carefully evaluated.
- Clarified when business federal income tax returns are required.
- Clarified language and formatting to the statement that IRS transcripts are required for all adult household members with the exception of full-time students.
- Added language to address incomplete applications when the lender cannot obtain form IRS 4506-T for household members without a Social Security number or other acceptable identification number.
- Added bullets to define sharp increases and decreases that must be evaluated when used as stable and dependable income.
- Added language to clarify the lender’s responsibility in their determination of stable and dependable income.
- Added this paragraph to clarify the use of time spent in education as substitute for required repayment income timeframes to allow only education where specified certification can be obtained.
- Made revisions to relax the required timeframes for certain type of incomes used in repayment income calculations from two years to one year.
- Added guidance on additional income types that were previously not included in the hand book.
- Provided additional guidance for documentation source options.
- In addition, attachment 9-A was updated for analysis and documentation requirements for both annual and repayment income.

ADVANCE COPY NOTICE UPDATE: HB-1-3555 Chapter 10 Credit Analysis

On December 19, 2019, USDA announced the future revisions to technical handbook HB-1-3555 Chapter 10, Credit Analysis. USDA has provided notice that updates to HB-1-3555 Chapter 10 publication through a PN has been delayed.

Effective January 28, 2020, LENDERS ARE AUTHORIZED TO SUSPEND THE FOLLOWING:

- Credit Score Validation for GUS ACCEPT files (previously two or more eligible tradelines were necessary to validate an applicant’s credit report score.)
- Downgrade a GUS ACCEPT file with manually entered debts. (Now, for GUS Accept files, New installment or revolving accounts that are not reflected on the credit report in GUS must be manually entered on the Asset and Liabilities GUS application page. No downgrade is required.)

All additional revisions to the revised HB-1-3555 Chapter 10 will continue to be pending publication of the PN.

Advance Copy Chapter 11: The Single-Family Housing Guaranteed Loan Program (SFHGLP) will publish a revision to technical handbook HB-1-3555 Chapter 11, Ratio Analysis. Prior to publication, an advance copy is available on USDA LINC’s Training and Resource Library for lender review and preparation.

The advance copy and a revision aid will be available for a minimum of 30 days for review. The revised handbook chapter will become effective on the date the Procedure Notice (PN) is published by the Agency.

Highlights of the revised HB-1-3555 Chapter 11 include but are not limited to:
Clarified monthly debt guidance: Guidance for monthly debts is expanded to specifically address installment accounts, tax repayment agreements, and lease payments.

Mortgage debts: Guidance is provided for mortgages that are retained as rental property, retained with no release of liability, and impacted by divorce.

Student loans: The temporary guidance issued in the September 23, 2019 GovDelivery message is permanent.

New compensating factor for debt ratio waivers: An applicant that has received Social Security or retirement income for two years may consider this stable and dependable income as a compensating factor.

Effective Date: As noted above, CMG guidelines are scheduled to be updated this week with changes that impact guideline content.

CMG TO ALLOW VA APPRAISALS UNDER VA'S NEW ASSISTED APPRAISAL PROCESSING PROGRAM-AAPP

Summary: CMG will allow VA appraisals when VA fee panel appraisers utilize the AAPP process outlined in Circular 26-19-31. Under AAPP, the appraisal report may be completed based solely on information gathered by a person with whom the VA fee panel appraiser has entered into an agreement for such services. VA does not require a VA fee panel appraiser to participate in the AAPP process; such decision is solely at the discretion of the VA fee panel appraiser.

When participating, the assigned VA fee panel appraiser must put the name of the individual who will be performing the site visit and reviewing comparable sales in the Notes section. Note: The VA fee panel appraiser is required to make all site visits on complex properties, homes equal to or greater than 1 million dollars in sales price or value, and new construction properties.

Tidewater Value Cases and Reconsideration of Value Cases. In instances that Tidewater may apply, the assigned VA fee panel appraiser may only contact the lender to invoke Tidewater if he/she has performed the site visit of the subject property and verified the condition of the property. If the assigned VA fee panel appraiser did not conduct the site visit, the VA fee panel appraiser must make a site visit to the subject property at no additional fee to the lender or Veteran. VA fee panel appraisers utilizing the AAPP process must continue to adhere to VA’s timeliness policy.

VA Circular: Circular 26-19-31

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