

BULLETIN # 2019-06

TO: Distribution

DATE: February 14, 2019

RE: CMG Financial Correspondent Lending  
Updates

EFFECTIVE: As noted below

## CMG FINANCIAL CORRESPONDENT LENDING UPDATES

Topics Covered in this Announcement:

- VA Cashout Refinance Changes- NEW Information
- Freddie Mac Bulletin 19-04 2016 Expenses & Condominium Projects

## VA CASHOUT REFINANCE CHANGES- NEW INFORMATION

**Summary:** As previously announced, the VA cash-out refinance changes will be effective for all VA cash-out refinance loan applications taken on, or after, February 15, 2019. There are significant changes, including the following:

- Cash-out refinances will fall into one of two “categories” – Type I or Type II
- New Net Tangible Benefit requirements must be met
- A requirement to provide to the borrower an estimate of the dollar amount of home equity that, by refinancing into a new loan, is being removed from the reasonable value of the home, and explain that removal of this home equity may affect the borrower’s ability to sell the home at a later date.
- New requirement for disclosing key loan characteristics for the loan being refinanced as compared to the new loan
- New disclosure requirements for both at time of application and disclosure

### **NEW! Fannie Mae DU Announcement: It Will Be Necessary To Process “Refers” as “Manual Underwrites”**

- Fannie Mae has issued a release to accommodate the VA cash-out refinance changes. The cash-out refinance LTV changes will trigger a “Refer” recommendation in the DU system for all loans. It will include those loans with applications submitted prior to the February 15th deadline but need to be resubmitted after the weekend of the 16th.
- VA has advised that it will be necessary to process all loans that receive a Refer recommendation after the weekend of February 16th as “manual underwrites”.

**Link to Fannie Mae announcement:** [https://www.fanniemae.com/content/release\\_notes/du-governmentloans-release-notes-02162019.pdf](https://www.fanniemae.com/content/release_notes/du-governmentloans-release-notes-02162019.pdf)

## FREDDIE MAC BULLETIN 19-04 2016 EXPENSES & CONDOMINIUM PROJECTS

**Summary:** Freddie Mac released bulletin 19-04 updating condo project review requirements as well as providing updates to documentation required for commission income.

**Commission income** - Following recent tax law changes, unreimbursed employee expenses of commissioned employees will no longer be documented on federal individual tax returns. Consequently, Freddie Mac is removing the requirements that when the Borrower's commission income is greater than or equal to 25% of the total income from the commissioned employment that the lender:

- Obtain complete federal individual income tax returns for the most recent two-year period; and
- When calculating income, deduct unreimbursed employee expenses reflected on Schedule A and Internal Revenue Service (IRS) Form 2106 (if applicable) of the Borrower's federal individual income tax returns from the Borrower's gross commission income

As a result of this change, the documentation and income calculation requirements will be the same for all commission income, regardless of its percentage of the total income from the commissioned employment. The applicable Loan Product Advisor® feedback messages will be updated at a later date to reflect these changes. Until then, lenders may disregard the feedback messages requiring tax returns covering a two-year period when commission income is greater than or equal to 25% of the total income from the commissioned employment.

**Note:** Non agency loans and government loans must continue to meet documentation requirements unless additional specific guidance is provided from the investors and government agencies.

**Effective Date:** *Immediately.* CMG guidelines and income validation policy will be updated and reposted next week to coincide with this update and the recent update from Fannie Mae that announced similar guidance.

**Link:** <http://www.freddie.mac.com/singlefamily/guide/bulletins/pdf/bl1904.pdf>

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