



BULLETIN # 2019-09

TO: Distribution

DATE: March 13, 2019

RE: CMG Financial Correspondent Lending Updates

EFFECTIVE: As noted below

CMG FINANCIAL CORRESPONDENT LENDING UPDATES

Topics Covered in this Announcement:

- Freddie Mac Updates
- FHA New Construction Update- 10 Year Protection Plan
- FHA-Clarification Regarding Paystubs when Using TPV
- Disaster List Updates

FREDDIE MAC UPDATES

Summary: With Bulletin 2019-05 Freddie Mac has announced a number of updates and clarifications to the selling guide.

ALIMONY OR MAINTENANCE PAYMENTS

Currently, the Guide states that alimony or maintenance payments with more than 10 months of payments remaining must be included as a debt when calculating the monthly debt payment-to-income ratio. Freddie Mac is revising this requirement to reflect that alimony or maintenance payments with more than 10 months of payments remaining must be deducted from the Borrower's gross monthly income. The reduced monthly income amount should be used to qualify the Borrower. Child support will continue to be treated as a debt when calculating the monthly debt payment-to-income ratio. When entering an alimony obligation in Loan Product Advisor, select "Alimony/Child Support" under "Income Type" and enter it as a negative number. If the Borrower also receives alimony or child support income, add those amounts together and then subtract the alimony obligation. Enter the result in the income amount field.

Effective Date: July 6, 2019; however, lenders may implement immediately

DOCUMENTATION REQUIREMENTS FOR SELF-EMPLOYED BORROWERS - CLARIFICATION

Currently, one year of business and personal tax returns are required when the business has been in existence for five or more years. We are specifying that the Borrower must be self-employed (i.e., have an ownership interest of 25% or more) in the same business for at least five years to take advantage of this flexibility. This update does not represent a change in existing requirements.

RESTRICTED STOCK/RESTRICTED STOCK UNITS INCOME DOCUMENTATION REQUIREMENTS

Employers increasingly include RS and RSU as a component of employee compensation. RS are grants of company shares which represent equity interest in the company. RSU are grants valued in terms of company shares that do not represent equity interest in the company. Both RS and RSU are subject to a restriction period during which recipients are not permitted access to granted shares until vesting requirements are met. Vesting requirements are based on varying criteria but the most common types are:

- Performance-based (e.g., a certain percentage of total granted shares vest based on individual or corporate performance), and
- Time-based (e.g., a certain percentage of total granted shares vest after a pre-determined period of employment)

In Bulletin 2017-20, Freddie Mac introduced requirements for using restricted stock (RS) and restricted stock units (RSU) as qualifying income. After additional analysis, Freddie Mac is streamlining the related documentation requirements by making the following changes:

- Permitting the type of vesting provision to be verified with other documentation (e.g., an offer letter), in addition to the currently required RS and/or RSU agreement
- Allowing income verification obtained through a third-party verification service provider as described in Section 5302.3, provided that RS and/or RSU payouts are clearly identified and distinguished
- Updating our requirement for vesting schedule(s) to state that they must be “currently in effect,” rather than “most recent,” as previously stated
- Removing the requirement for documented “date(s) of the payout(s)”

Guide impact: Section 5303.3

RENTAL INCOME REQUIREMENTS – CLARIFICATION

Freddie Mac has clarified the selling guide in regards to when it is appropriate to use a lease to document rental income as opposed to using the Schedule E and that rental income can offset the full monthly payment rather than just the principal, interest, taxes and insurance. Clarification regarding using a lease is noted in green text below:

- If rental income from the subject Investment Property and/or non-subject investment property is to be considered in qualifying the Borrower, the following requirements apply:
 - The lender must obtain the Borrower’s federal income tax returns (Internal Revenue Service (IRS) Form1040) including the Schedule E for the most recent year. **Except as set forth below when use of assigned lease may be permitted**, if the subject property **has been owned for at least one year** and income from the subject property is reported on the Borrower’s federal income tax returns, the lender must use the Schedule E to determine the net rental income or loss.
 - A signed lease may be used if:
 - The property was out of service for any time period in the prior year **and the Mortgage file contains a documented event such as a renovation or evidence the property was purchased later in the calendar year**
 - The Schedule E supports this by a reduced number of days in use and reflects repair costs; and
 - Form 72 or 1000 supports the income reflected on the lease

Unless the above requirements are met, a signed lease may not be used and the rental income or loss from the Schedule E must be used and annualized for qualifying purposes.

Effective Date: *Clarifications are effective Immediately. Other effective dates as noted above the topic.*

Link: <http://www.freddiemac.com/singlefamily/guide/bulletins/pdf/bl1905.pdf>

FHA NEW CONSTRUCTION UPDATE- 10 YR PROTECTION PLAN

Summary: In December 2018 FHA published in the Federal Register a final rule, Streamlining Warranty Requirements for Federal Housing Administration (FHA) Single Family Mortgage Insurance: Removal of the TenYear Protection Plan Requirements (Docket No. FR-6029-F-01).

This final rule streamlines the home warranty requirements for FHA single family mortgage insurance by removing the regulations that require borrowers to purchase 10-year protection plans in order to qualify for certain mortgages on newly constructed single family homes. Those consumers who opt to purchase warranties will be able to choose from the entire market of warranty providers, not just those approved by HUD.

HUD is retaining the requirement that the Warranty of Completion of Construction (form HUD-92544) be executed by the builder and the buyer of a new construction home, as a condition for FHA mortgage insurance. This final rule becomes effective March 14, 2019.

Effective Date: *Case numbers ordered on and after March 14, 2019.*

Links:

https://www.hud.gov/sites/dfiles/SFH/documents/SFH_FHA_INFO_18-49.pdf
<https://www.govinfo.gov/content/pkg/FR-2018-12-14/pdf/2018-27116.pdf>

FHA- CLARIFICATION REGARDING PAYSTUB WHEN USING TPV

Summary: FHA has revised the initial posted Mortgagee Letter, clarifying the new requirements for employment, income, and asset accounts to permit the use of TPV services. Third Party Verification refers to a process through which a Borrower's employment, income, and asset information is verified directly by the Mortgagee with a borrower's employer or financial institution, through the services of a third party vendor. CMG guidelines are updated with the new guidelines, including that a paystub is not required if acceptable direct verification by a TPV is obtained.

New current employment requirements for employment related income (traditional documentation):

- For Traditional Current Employment Documentation for employment related income: The Mortgagee must obtain one of the following to verify current employment:
 - The most recent pay stubs covering a minimum of 30 consecutive Days (if paid weekly or bi-weekly, pay stubs must cover a minimum of 28 consecutive Days) that show the Borrower's year-to-date earnings, and a written Verification of Employment (VOE) covering two years; or
 - direct verification by a TPV vendor covering two years, subject to the following requirements:
 - the Borrower has authorized the Mortgagee to verify income and employment; and
 - the date of the data contained in the completed verification conforms with FHA requirements at II.A.1.a.i.(A)(1).

The Correspondent Lender is the Mortgagee and is responsible for making sure the vendor and documentation meet FHA requirements.

Effective Date: *Immediately*

Link: <https://www.hud.gov/sites/dfiles/OCHCO/documents/19-01hsqml.pdf>

DISASTER LIST UPDATES

Summary: The CMG Disaster List is updated to include FEMA Disasters 4413 in Alaska and 4419 in Alabama. The affected counties are listed below. There is currently no end date to these disasters, and no FHA waivers issued. FHA closings/purchases are not eligible in counties with FEMA declared individual assistance until a FEMA end date is declared (or FHA issues a waiver for the end date) and a disaster inspection is obtained.

- ALASKA
 - Anchorage Borough
 - Kenai Peninsula Borough
 - Matanuska- Susitna Borough
- ALABAMA
 - Lee County

Effective Date: *Immediately*

Links:

[CMG Disaster Policy](#)
<https://www.fema.gov/disaster/4413>
<https://www.fema.gov/disaster/4419>

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



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