

BULLETIN # 2019-10

TO: Distribution

DATE: March 20, 2019

RE: CMG Financial Correspondent Lending
Updates

EFFECTIVE: As noted below

CMG FINANCIAL CORRESPONDENT LENDING UPDATES

Topics Covered in this Announcement:

- FHA TOTAL Mortgage Scorecard Updates to Address High DTI/Low Credit Score Combinations
- VA Circular-Unreimbursed Business Expenses & Commission Income

FHA TOTAL MORTGAGE SCORECARD UPDATES TO ADDRESS HIGH DEBIT-TO-INCOME/ LOW CREDIT SCORE COMBINATION

Summary: FHA announced that it is taking initial steps to better mitigate the increasing risks in recent Single Family fiscal year (FY) endorsements. Effective for mortgages with case numbers assigned on or after March 18, 2019, FHA will update its Technology Open to Approved Lenders (TOTAL) Mortgage Scorecard to specifically manage the decrease in average borrower credit scores and the excessive risk layering that results when multiple risk factors are present.

When updated, lenders submitting mortgages with case numbers assigned on or after March 18, 2019, to the TOTAL Mortgage Scorecard via an automated underwriting system (AUS) may receive feedback results for certain mortgages indicating that they must be manually underwritten. The lender's final underwriting review decision for those mortgages must be documented in accordance with existing FHA requirements for manually underwritten mortgages.

Reminder: For credit scores under 620 that meet CMG minimum credit standards, CMG continues to require a second review. Loans not meeting CMG's established credit standards will continue to be reviewed on an exception basis.

Effective Date: *The TOTAL Mortgage Scorecard Updates are effective immediately.*

VA CIRCULAR-UNREIMBURSED BUSINESS EXPENSES & COMMISSION INCOME

Summary: VA issued Circular 26-19-9 revising VA underwriting guidelines [VA Lenders Handbook, Chapter 4, Topic 2 i – "Income from Commissions"] to remove the requirements for Internal Revenue Service (IRS) Form 2106 with the exception of Armed Forces Reservist, qualified performing artists, fee-basis state or local officials, and employees with impairment-related work expenses.

As a result of the tax law changes, the different treatment of commission income based on the percentage of employment income and unreimbursed business expenses is being removed. The requirement for IRS Form 2106 with the reporting of 2018 federal income taxes is also removed.

CMG guidelines will be updated next week, as applicable.

Link: https://www.benefits.va.gov/homeloans/documents/circulars/26_19_9.pdf

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