



TO: Distribution

DATE: March 23, 2020

RE: CMG Financial Correspondent Lending Updates

EFFECTIVE: As noted below

### CMG FINANCIAL CORRESPONDENT LENDING UPDATES

Topics Covered in this Announcement:

- Non-Agency Temporary Program Suspensions
- Income-Stability & Continuance of Income
- Verification of Employment
- Title Insurance- "Gap" Coverage Required
- Tax Filing / Payment Deadline Extension
- RHS (USDA) Announces Revisions to Handbook 1-3555- Effective Immediately

### NON-AGENCY TEMPORARY PROGRAM SUSPENSIONS

**Effective immediately, due to market volatility, the following programs are suspended, and new locks will not be accepted:**

- Premier 6200 QM & 7200 Non-QM Series
- Flex 6400 QM Series
- Expanded 6600 QM & 7600 Non-QM Series
- Simply 6700 QM Series
- Prime 6800 Series
- Renew 6900 QM & 7900 Non-QM Series
- All In One #801 Prime

**Once the market stabilizes CMG will release revised pricing and guidelines, and the products will be taken out of suspension, as applicable.**

***For non-agency products, please continue to look to the following programs to meet borrower needs:***

- All-In-One 801-WAB, 801-WAB 3FIX, 801-MBI & 801-MBI 5FIX

**Please contact your National Sales Manager if you have any questions.**

**Effective Date:** *Immediately*

## INCOME-STABILITY AND CONTINUANCE OF INCOME

For all loan programs, it is critical that underwriting consider stability and continuance of income. Each transaction and employment situation must be considered at the loan level. The below will not cover every potential situation. Extra due diligence is especially required for borrowers that work in severely impacted industries, including using short term rental income to qualify.

Additional steps may include the following:

- Any employment type – an internet search to confirm the current status of the business.
- Self-employed: obtaining year to date P&L even if guidelines only require “most recent” year tax return. If an extension was filed for 2019, underwriting may require a P&L and balance sheet in addition to a year to date P&L.
- Bank statement income programs: careful analyzation of income to confirm qualifying income/cash flow is currently supported.
- Short-term rental income (e.g., rental income from a source where a lease is not utilized). When guidelines allow verification of seasoned rental income from tax returns vs a lease agreement, including short term rental (such as vacation rental or Airbnb), CMG will not permit the income to be used to qualify the borrower unless the following can be obtained:
  - Current lease agreement (property converted to long term rental), or
  - For continued short term rental income
    - YTD P&L supporting the stability of the rental income (can be borrower prepared)
    - The borrower must have documentation verifying most recent receipt of rental income (such as deposits,rent roll, etc.) for each rental property, that supports the income used to qualify.

**Effective Date:** *Immediately*

## VERIFICATION OF EMPLOYMENT

If underwriting reviews and approves a borrower’s employment and income, verification of employment continues to be required. Some situations may require the application of guidelines for “temporary leave”. In some cases, even though a business is temporarily closed borrowers may still fully employed, receiving full pay, and a standard verification of income can be obtained.

Key points:

- Additional information may be required to determine active employment status
- Additional information may be required to determine active receipt of income & level of income
- Some borrowers may fall under temporary leave income eligibility and requirements
- Standard VVOE requirements must continue to be met for all programs.
- In some cases, a full written VOE may be easier to obtain than the traditional verbal verification of employment

**Effective Date:** *Immediately*

## TITLE INSURANCE- 'GAP' COVERAGE REQUIRED

**Summary:** A new exception may be appearing in title commitments as a result of the COVID-19 crisis. The exception some lenders may see in Schedule B or C of the title commitment is the following (or something with similar wording):

“The Company reserves the right to make exceptions and requirements prior to and following closing for issuance of a title policy(ies) based upon the specifics of the transaction, the review of the closing documents, and changes in recording and title searching capabilities resulting from the consequences of the COVID-19 pandemic and business and government office closures.”

This exception relates to “gap” coverage, which is typically covered by the mortgage title policy. The period between the time when the borrower(s) sign their loan documents and the actual filing of the deed of trust is commonly referred to as the “gap” period.

In some cases, the title work may require an Affidavit/Hold Harmless and Indemnity Agreement signed by the parties and the title work will reflect a B-1 requirement: Execution of Affidavit of Understanding and Indemnity and Hold Harmless Agreement Due to the COVID-19 Emergency by the Parties to the Contemplated Transaction.

This is an affidavit that borrowers and sellers may need to execute if required by title.

## TAX FILING / PAYMENT DEADLINE EXTENSION

**Summary:** Based on announcements from Secretary Steven Mnuchin, the IRS moved the national income tax filing day ahead to July 15, three months after the normal deadline for Americans to send in their returns. All taxpayers and businesses will have this additional time to file and make payments without interest or penalties.

**Impact to Underwriting:** As noted in the income stability and continuation guidance addressed earlier in the memo, underwriting will need to carefully review each situation and require documentation as appropriate. In general, this should be treated as a valid filing of an extension and individual program guidelines adhered to.

**Impact to Income Validation Policy – Tax Transcripts:** CMG's tax transcript policy requires transcript validation for tax returns used to qualify the borrower and addresses action required. The requirement for tax returns are addressed in the underwriting guidelines.

## RHS (USDA) ANNOUNCES REVISIONS TO HANDBOOK 1-355

**Summary:** USDA has announced Chapter 10 of Handbook 1-3555 is update with the following: Credit Analysis to clarify credit qualifications, adverse credit, and Federal debts. A matrix was added to assist USDA employees and lending/real estate partners to efficiently locate credit analysis guidance.

### Paragraph 10.2:

- Added specific language to confirm delinquent non-tax Federal debt and delinquent court ordered child support will render an applicant ineligible. Clarified the CAIVRS response must be an "A" for an applicant to be eligible.

### Paragraph 10.3:

- Streamlined guidance for acceptable credit reports and removed the need to order an RMCR for certain circumstances.
- Added guidance to clarify lenders may follow credit repository guidelines, lending laws, etc. to determine if joint applicants must have separate credit reports.
- Added guidance to confirm USDA does not require unmarried applicants to be on the same credit report, loan application, Form RD 3555-21, etc.
- Added guidance to confirm all credit repository information is available and no bureaus are frozen.

### Paragraphs 10.5 – 10.16:

- Eliminated These sections have been relocated to the appropriate topic in the new Attachment 10-A "Credit Matrix".

### Attachment 10-A (current version):

- Credit Underwriting: Eliminated A new Attachment 10-A "Credit Matrix" replaces the current attachment.

### Attachment 10-B:

- The Credit Review: Eliminated The guidance in Attachment 10-B has been relocated to the appropriate topic in the new Attachment 10-A "Credit Matrix".

### Attachment 10-A (new revision):

- Credit Matrix Clarified CAIVRS guidance to confirm the only eligible response for a guaranteed loan is "A".
- Added guidance to outline the steps and documentation required from lenders to submit evidence of an "A" CAIVRS response when GUS may reflect an alternate determination at the time of the initial loan application.
- Added a reminder that CAIVRS is not the only source to report delinquent Federal debts. Lenders must investigate the credit report, public records, etc. to assist them to fully underwrite and certify the loan is free of Federal debts.
- Removed the requirement for a GUS Accept loan file to meet credit validation requirements.

- Confirmed credit score validation is required for GUS Refer, Refer with Caution, and manually underwritten loans.
- Clarified authorized user accounts may be used to validate a credit score, while public records, disputed tradelines, and self-reported accounts are not.
- Clarified that GUS Refer, Refer with Caution, and manually underwritten loans are not eligible for debt ratio waivers when credit validation is not met or nontraditional credit is utilized.
- Provided flexibility on debts not reflected on the credit report, but when included in the total debt ratio, a downgrade of a GUS Accept loan file is not required.
- Provided clarification for credit exception requests and required lender documentation submitted for GUS Refer, Refer with Caution, and manually underwritten loan files.
- Provided flexibility for approved lenders to retain issued Conditional Commitments when existing/new debt monthly payments, real estate taxes, homeowners insurance, etc. will increase \$50 or less.
- Added guidance for Chapter 12 and 13 bankruptcies.
- Clarified guidance for collection accounts that are non-medical with a total balance(s) that exceed \$2,000. Specific guidance to enter collections accurately into GUS is included.
- Added guidance for delinquent court ordered child support.
- Clarified guidance for delinquent Federal non-tax debts.

**Attachment 10-A (new revision):**

- Credit Matrix Clarified delinquent federal tax debts owed through repayment plans, approved extension requests, and an applicant's failure to file taxes for program eligibility and lender documentation.
- Clarified guidance for disputed derogatory and non-derogatory accounts.
- Added guidance for garnishments.
- Added guidance for repossessions.
- Added guidance for the loss of a timeshare.
- Clarified required applicant and lender documentation for a previous USDA loss. Confirmed USDA is responsible to review the submitted documentation and determine if the applicant is eligible for a new guarantee.
- Revised the number of late rent payments from one to three paid 30 days or more past due in the previous 12 months as an indicator of unacceptable credit.

**Reference: PN 534**

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



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