

**TO: Distribution**

**DATE: April 1, 2020**

**RE: CMG Financial Correspondent Lending Updates**

**EFFECTIVE: As noted below**

## CMG FINANCIAL CORRESPONDENT LENDING UPDATES

### Topics Covered in this Announcement:

- VVOE Clarifications
- GSE Investor Designation Clarification for Appraisal Flexibility
- Fannie Mae & Freddie Mac Additional Credit Underwriting Guidance related to COVID-19

### VVOE CLARIFICATIONS

**Summary:** Please see below for clarifications.

#### FHA VVOE Flexibility & two months reserves clarification.

- When a standard VVOE is unable to be obtained and FHA's flexible option is being used, FHA is only requiring the two months reserves **for purchase transactions**. As an alternative to the required re-verification of employment as described in FHA Handbook 4000.1, the following is acceptable provided that the lender is not aware of any loss of employment by the borrower and obtains the following:
  - For all transactions:
    - A year-to-date paystub or direct electronic verification of income for the pay period that immediately precedes the Note date, or
    - A bank statement showing direct deposit from the Borrower's employment for the pay period that immediately precedes the Note date.
  - In addition, for purchase transactions, evidence the Borrower has a minimum of 2 months of Principal, Interest, Taxes and Insurance (PITI) in reserves is required when standard re-verification is unable to be obtained.
- Underwriting must approve the alternative documentation if a standard VVOE within 5 days is not obtained.

#### VVOE within five days (all financing types):

- CMG now requires Verbal Verification of Employment within 5 (five) business days of the date the borrower signs the note (previously 10).

### GSE INVESTOR DESIGNATION CLARIFICATION FOR APPRAISAL FLEXIBILITY

**Summary:** For conventional conforming loans when a full appraisal is not an option and appraisal flexibility is permitted based on and agency to agency refinance transaction the investor must be designated based on whether it is Fannie Mae or Freddie Mac that currently holds the loan. In addition, the AUS must match the agency that currently holds the loan being refinanced.

**Example:** If refinancing a Freddie loan with the appraisal flexibility, it needs to be qualified with LPA and investor selected as Freddie only.

**Action to take:** The underwriter must select the correct investor designation and pick "other" in the drop down and include the reason.

### FANNIE MAE & FREDDIE MAC ADDITIONAL CREDIT UNDERWRITING GUIDANCE RELATED TO

## COVID-19

### Age of income and assets documentation

Fannie Mae and Freddie Mac are implementing the following temporary requirements for age of income and assets documentation. In order to ensure that the most up-to-date information is being considered to support the borrower's ability to repay, the age of documentation requirements for all loans (existing and new construction) is updated as follows:

**All income and asset documentation must be dated no more than 60 days prior to the Note Date, except as follows:**

- If an asset account is reported on a quarterly basis, the lender must obtain the most recently issued quarterly statement
- For electronic income verifications obtained from third-party verification service providers, the information from the electronic data base reflected on the third-party verification must now be dated no more than 60 days prior to the Note Date. (Note: Current guidelines require the following for VVOE: Because third-party vendor databases are typically updated monthly, the verification must evidence that the information in the vendor's database is no more than 30 days from the date the verification was pulled by the CMG employee. This VVOE requirement is not impacted by the agency guidance for electronic income verification. In addition, common sense must continue to be utilized based on knowledge of the employer's current status as it related to using a third-party vvoe.)
- The standard Guide requirements for age of documentation continue to apply to the following income types:
  - Military income documented on Leave and Earnings Statements
  - Retirement income
  - Survivor and dependent benefit income
  - Long-term disability income
  - Social Security Supplemental Security Income (SSI)
  - Public assistance income
  - Homeownership Voucher Program payments
  - Foster-care income
  - Trust income (fixed)
  - Royalty payments
  - Mortgage Credit Certificates (MCC)

**Effective Date:** Lenders are encouraged to apply these updates to existing loans in process; however, they must be applied to loans with application dates on or after Apr. 14, 2020 through May 17, 2020.

### Self-employed Borrowers: Verification of the current existence of the business – business open and operating

Currently, when a Borrower is using self-employment income to qualify, the lender must verify the existence of the Borrower's business no more than 120 days prior to the Note Date. Due to the impact the COVID-19 pandemic and the various social distancing measures implemented by different jurisdictions are having on many businesses across the country, lenders must now take additional steps to confirm that the Borrower's business is open and operating within 10 Business Days prior to the Note Date. In addition, there may be latency in system updates or recertifications using annual licenses, certifications, or government systems of record.

Below are examples of methods the lender may use to confirm the Borrower's business is currently operating:

- Evidence of current work (e.g., executed contracts or signed invoices that indicate the business is operating on the day the lender verifies self-employment)
- Evidence of current business receipts within 10 Business Days of the Note Date (e.g., payment for services performed)
- Lender certification the business is open and operating (e.g., the lender confirmed through a phone call or other means)
- Business website demonstrating activity supporting current business operations (e.g., timely appointments for estimates or service can be scheduled)

**Effective Date:** Lenders are encouraged to apply these updates to existing loans in process; however, they must be applied to loans with application dates on or after Apr. 14, 2020 through May 17, 2020.

**Stocks, stock options and mutual funds (Market-based assets)**

Due to the continuing market volatility of certain asset types, we are implementing the following temporary requirements applicable to accounts with stocks, stock options and mutual funds:

- When used for down payment or closing costs, evidence of the borrower's actual receipt of funds realized from the sale or liquidation must be documented in all cases.
- When used for reserves, only 70% of the value of the asset must be considered, and liquidation is not required.

**Effective Date:** Lenders are encouraged to apply these updates to existing loans in process; however, they must be applied to loans with application dates on or after Apr. 14, 2020 through May 17, 2020.

***Please contact your Correspondent National Sales Manager  
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