



BULLETIN # 2019-14

TO: Distribution

DATE: April 10, 2019

RE: CMG Financial Correspondent Lending Updates

EFFECTIVE: As noted below

CMG FINANCIAL CORRESPONDENT LENDING UPDATES

Topics Covered in this Announcement:

- Freddie Mac- Multiple Updates
- Fannie Mae HomeReady Updates
- VA Joint Loans- New Tool & Reminders
- Reminders: VA Certificate of Eligibility
- All In One- RSU Eligibility
- DACA Borrowers

FREDDIE MAC- MULTIPLE UPDATES

Summary: Freddie Mac issued Bulletin 2019-7 with multiple updates. Please see below for highlights.

HOME POSSIBLE MORTGAGES (MORE RESTRICTIVE CHANGE)

Limitation on the number of financed residential properties owned

At the instruction of the FHFA, Freddie Mac is revising the requirements for Home Possible Mortgages to state that the occupying Borrower(s) must not have an ownership interest in more than two financed residential properties, including the subject property, as of the Note Date.

Loan Product Advisor® feedback messages will be updated by July 3, 2019 to reflect these changes.

Effective Date: *In order to meet delivery deadlines, CMG will require that all loans not meeting the revised finance property restriction must be purchased by June 1, 2019.*

ASSETS AS A BASIS FOR REPAYMENT OF OBLIGATIONS (ENHANCEMENT)

Freddie Mac is revising the calculation for asset as a basis for repayment of obligations. The calculation will now require the underwriter to divide the net eligible assets by 240 (instead of 360, as was previously required) to determine the amount used to establish the debt payment-to-income ratio. The new calculation remains aligned with the intent that only assets that are reasonably expected to be used to repay the Mortgage are used for qualifying the Borrower.

Freddie Mac Selling Guide reference: Section 5307.1

SECOND HOME MORTGAGES (CLARIFICATION)

Freddie Mac is updating requirements for second home Mortgages to:

- Permit second homes with seasonal limitations on year-round occupancy (e.g., lack of winter accessibility) to be eligible for sale to Freddie Mac provided the appraiser includes at least one comparable sale with similar seasonal limitations to demonstrate the marketability of the subject property

- Specify that the property may be rented out on a short-term basis provided that:
 - The Borrower keeps the property securing the second home Mortgage available primarily (i.e., more than half of the calendar year) as a residence for the Borrower's personal use and enjoyment; and
 - The property is not subject to any rental pools or agreements that require the Borrower to rent the property, give a management company or entity control over the occupancy of the property or involve revenue sharing between any owners and developer or another party.

Link: <http://www.freddiemac.com/singlefamily/guide/bulletins/pdf/bl11907.pdf>

FANNIE MAE HOMEREADY UPDATES

Summary: HomeReady mortgage is Fannie Mae's affordable lending product designed for creditworthy low- to moderate-income borrowers, offering expanded eligibility for financing homes in low-income communities. Fannie Mae has updated HomeReady policies to include the following:

- Multiple financed properties: Fannie Mae is imposing a maximum limit of two financed properties, including the subject property, for all HomeReady mortgage loans. Financed properties owned by a non-occupant borrower do not have to be included. The additional reserves required for multiple financed properties are not applicable to HomeReady loans.
- Boarder income: The current policy states that a boarder may not be obligated on the mortgage loan. Fannie Mae is clarifying that the boarder may also not have an ownership interest in the property.

Effective Date: *Lenders may implement these policies immediately. Desktop Underwriter® (DU®) will be updated to include the multiple financed property policy and boarder ownership policy in a future release, at which time these will be required for DU loan casefiles.*

VA JOINT LOANS- NEW TOOL & REMINDERS

Summary: Joint Loans require special consideration and must be prior approved by the VA. Guaranty is limited to that portion of the loan allocable to the veteran's interest in the property. Joint Loans require special handling by VA for determining the amount of Guaranty on the loan and the lender for determining secondary market (GNMA) requirements. These loans usually do not have sufficient entitlement/guaranty to meet secondary market requirements and, if they do, must be sent to VA for Prior Approval. For Purchases and Regular (Cashout) refinances the maximum potential guaranty is always the lesser of 25 percent of the VA county loan limit 25 percent of the loan amount.

Reminder - What VA loans must be submitted for prior approval?

- Joint Loans* (Vet/Vet, Vet/Non-Vet)
 - a veteran and another person(s) are liable, and
 - the veteran and the other obligor(s) own the security
 - the veteran and another person to be included on title but not an obligor on the loan.
- Loans to Veterans in receipt of VA non-service connected (NSC) pension
- Loans to Veterans that have a fiduciary assigned by VA

*A loan involving a veteran and his or her spouse will not be treated as a "joint loan" if the spouse:

- is not a veteran, or
- is a veteran who will not be using his or her entitlement on the loan.

A loan to a veteran and fiancé who intend to marry prior to loan closing and take title as veteran and spouse will be treated as a loan to a veteran and spouse (conditioned upon their marriage), and not a joint loan.

Check the COE for Conditions/Warnings!

Note: The Department of Veterans Affairs (VA) requires lenders to upload prior approval loan submissions electronically through the WebLGY system.

Don't forget! Every VA loan requires full/correct VA case number PRIOR to closing the loan.

Special Handling Reminders:

COE Conditions

- Funding Fee
- Reserve/National Guard Funding Fee
- Cash-out Refinance
- One-Time Restoration
- Active Duty
- Submit 26-8937 to the RLC—
Pension or Incompetent
- Surviving Spouse









Additional consideration / special handling / downpayment may be required if you answer “Yes” to any of the following questions regarding a VA loan:

- Will the loan amount be greater than the VA County Loan Limit?
- Will the veteran-borrower hold title to the subject property other than alone or with his/her spouse?
- If there is a co-borrower on the loan, will the veteran-borrower and the co-borrower be NOT married as of the date of closing?
- Will the subject property be secured by the new VA first lien and any other subordinate liens?
- Subsequent use: If the veteran’s entitlement is not restored is the Total loan amount less than \$144,000?
- Regular Refinance (aka cash out): If the entitlement is currently in use, is the used entitlement secured by a property other than the subject property?

REMINDERS: VA CERTIFICATE OF ELIGIBILITY

The Certificate of Eligibility is critical when originating a VA Loan for a veteran. It will indicate the amount of available entitlement, show the entitlement code and show conditions/warnings that must be reviewed. **esignated Counties* (Individual Assistance):**

VA Entitlement Codes

VA Entitlement Codes:

01	World War II
02	Korean War
03	Post-Korean
04	Vietnam War
05	Entitlement Restored
06	Un-remarried Surviving Spouse
07	Spouse of POW/MIA
08	Post-World War II
09	Post-Vietnam
10	Persian Gulf War
11	Selected Reserve





COE Tips:

1. A Surviving Spouse Must complete VA Form 26-1817 to obtain a Surviving Spouse COE.
2. Order the COE as early as possible in the loan application process. Until you have a valid COE you do not know if a Veteran has sufficient entitlement.
3. Once the COE is obtained – be sure you confirm
 - a. the Entitlement Code,
 - b. the Amount of Entitlement, and
 - c. and watch for any conditions/warnings.
4. Originate the loan using the correct funding fee.

Don't Forget! All VA loans require a 25% guaranty/equity to meet secondary marketing requirements.

Surviving Spouse:

- An entitlement Code of “06” indicates that the SS is exempt from the VA funding fee
- Eligibility of the surviving spouse and the validity of guaranty entitlement hereby evidence will be null and void if any change in marital status occurs subsequent to the date of this certificate and prior to the date a loan to the widow or widower is closed.

Subsequent Use Funding Fee: Entitlement code of “5” indicates previously used entitlement has been restored. The Veteran must pay a subsequent use funding fee on any future loan unless Veteran is exempt.

Order the COE as early as possible in the loan application process

This action prevents the following:

- Last minute delays – The Veteran is at the closing table and still does not have a COE because it was ordered just a few days prior to closing.
- The Veteran may not have the correct documentation to have his/her COE processed quickly. (Ex. DD214, Point Statement, NGB 22, etc.)
- Receiving an untimely determination that the Veteran is not eligible for a Certificate of Eligibility.

Remember to check the COE Conditions Prior to Closing on the VA Loan.

ALL IN ONE- RSU ELIGIBILITY

Clarification: Restricted Stock Units income is an acceptable source of income when the following requirements are met:

- May only be used as qualifying income if the income has been consistently received for 2 years and is identified on the paystubs, W-2s and tax returns as income and the vesting schedule indicates the income will continue for a minimum of two (2) years at a similar level as prior 2 years.
- A two year average of prior income received from RSUs or stock options should be used to calculate the income, with the continuance based on the vesting schedule using a stock price based on the lower of the current stock price or the 52-week average for the most recent 12 months reporting at the time of closing. The income used for qualifying must be supported by future vesting based on the stock price used for qualifying and vesting schedule.
- Additional awards must be similar to the qualifying income and awarded on a consistent basis.
- There must be no indication the borrower will not continue to receive future awards consistent with historical awards received.
- Borrower must be currently employed by the employer issuing the RSUs/stock options in order for the RSUs/stock options to be considered in qualifying income.
- Stock must be a publicly traded stock.
- Note: Restricted stock units and stock options that are vested cannot be used for reserves if using for income to qualify.

Effective Date: *Immediately.*

DACA BORROWERS

Summary: Effective immediately, CMG will permit DACA borrowers meeting the requirements noted below.

- Valid EAD Card
- Evidence of at least two renewals
- Valid social security number
- Valid state issued ID
- CMG minimum credit score requirements and all other guideline requirements must be met
- Established credit, employment and income history in the US

This flexibility is not applicable to FHA/VA/USDA financing.

As always, CMG will look at the specific circumstances of the individual's employment to determine whether our continuity of income representation and warranty is met. If there is a change to the ability of DACA recipients to renew their status, thus affecting continuance of income and employment, then the ability to lend to these borrowers will be impacted.

Effective Date: *Immediately.*

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



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