TO: Distribution

DATE: April 29, 2020

RE: CMG Financial Correspondent Lending Updates 2020-24

EFFECTIVE: As noted below

CMG FINANCIAL CORRESPONDENT LENDING UPDATES

Topics Covered in this Announcement:

- Income & Employment Stability As Local Governments Authorize Businesses to Open
- Impact of Mortgage and non-Mortgage Debt in Forbearance or Deferment
- Freddie Mac Revises Upcoming Income Requirements for Fluctuating Income
- Freddie Mac LPA Messaging Updates for COVID-19

INCOME & EMPLOYMENT STABILITY AS LOCAL GOVERNMENTS AUTHORIZE BUSINESS TO OPEN

As local governments begin to authorize businesses to open,the Correspondent Lender should continue to carefully consider stability and continuance of income for all borrowers. Each transaction and employment situation must be considered at the loan level. In all cases, the underwriter must be able to document that the qualifying income is stable and likely to continue.

- For businesses that were impacted, a self-employed borrower is not solely qualified on income that was received prior to any full or partial closing. Current qualifying income must be established as not all business will immediately return to previous income levels.
- For wage earners returning to work, current hours and wages must be clearly documented.

For borrowers qualifying with a re-established lower income level:

- If the newly established income is stabilized and there is no reason to believe that the borrower will not continue to be employed at the current level, the current, lower amount of variable income may be used. It may not be "averaged" with previous income levels.
- The underwriter's written analysis must justify that the income is likely to continue at the level used for qualifying. If the income can be determined as stable, the lower amount of the income must be used.

Additional steps may include the following:

- Any employment type – an internet search to confirm the current status of the business.
- For self-employed borrowers, below are examples that may be used 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)

- 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.
- 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.

In addition, individual program guidelines and requirements must be adhered to.

IMPACT OF MORTGAGE AND NON-MORTGAGE DEBT IN FOREBEARANCE OR DEFERMENT

Summary: As a standard rule, any debt in deferment must always be included in DTI. In addition, debt that has gone into deferment or forbearance due to a financial hardship creates a credit consideration in regards to the borrower's ability and capacity to repay. A borrower that has mortgage or non-mortgage debt in forbearance or deferment the borrower is not eligible for financing. The only exception would be for student loan debt that is in deferment as a part of industry standard practices,providing all program requirements are met. Please see below for general guidance that applies to all loan programs:

- Non-mortgage debt.

    - If a borrower entered into deferment or forbearance due to COVID-19 but not due to an economic hardship and did not miss any payments and documentation shows that the borrower is not currently in forbearance, consideration may be given.
    - If a borrower entered into deferment or forbearance due to COVID-19 and an economic hardship, the borrower must financially recover, exit forbearance, and re-establish a payment history before consideration can be given.

- Mortgage debt (subject or other property financed)

    - If a borrower entered into deferment or forbearance due to COVID-19, whether or not for an economic hardship,the borrower is not eligible until out of forbearance and program guidelines for re-established credit and payment history can be documented. Most programs require the borrower to be current at time of application and have a post forbearance 12 month payment history requirement.

Effective Date: *This is general guidance clarification.*

FREDDIE MAC REVISES UPCOMING INCOME REQUIREMENTS FOR FLUCTUATING INCOME

Based on the feedback and questions Freddie Mac received from lenders regarding changes to their income requirements announced in Bulletin 2019-20, they are removing the requirement that, for hourly earnings to be considered non-fluctuating, the documentation in the Mortgage file must support a minimum of six months history of the Borrower working the same number of hours with the same employer.

As a reminder, Guide Section 5301.1 requires that, for all stable income, including non-fluctuating employment earnings, the lender must consider the length of history of the income and whether the earnings have been level and consistent. As such, the lender must review all required employment and income documentation for consistency. As part of this review, the lender must ensure it is able to support that the Borrower's income is stable in instances when the Borrower with a short tenure at their current employer is qualified using income that is not consistent with income received from previous employment.

Effective Date: All other changes to the income requirements announced in Bulletin 2019-20 continue to be effective for loans /purchased on and after June 1, 2020.

Links:

- https://guide.freddiemac.com/app/guide/bulletin/2020-13
- Freddie Mac Selling Guide impact: Section 5303.2

FREDDIE MAC LPA MESSAGING UPDATES FOR COVID-19

Summary: In support of our COVID-19 related appraisal flexibilities for Freddie Mac-owned no cash-out refinance Mortgages announced in Guide Bulletin 2020-5, Loan Product Advisor® will be enhanced on 4/27/20 to assist lenders with identifying whether the existing mortgage being refinanced is Freddie Mac owned. If a match is found, based on the property address and the Social Security number of one or more Borrowers on an existing loan, then Loan Product Advisor feedback messages will be returned on both submissions and re-submissions to indicate that the Mortgage being refinanced is Freddie Mac owned.

Effective Date: *LPA will be updated 4/27/20*

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