CMG FINANCIAL
Correspondent Lending

BULLETIN #2018-13

TO: Distribution

DATE: May 2, 2018

RE: CMG Financial Correspondent Lending Updates

EFFECTIVE: As noted below

CMG FINANCIAL CORRESPONDENT LENDING UPDATES

Topics Covered in this Announcement:

- Freddie Mac Announces A New Product Coming This Summer- The HomeOne Mortgage
- Freddie Mac Announces Revised Home Possible Income Limits
- FNMA DU Updates Coming June 23
- Flex Jumbo Series 6400 Updates
- VA New Requirements for Refinancing Construction Loans
- Freddie Mac training opportunity

FREDDIE MAC ANNOUNCES A NEW PRODUCT COMING THIS SUMMER- THE HOMEONE MORTGAGE

Summary: Freddie Mac is introducing the HomeOne Mortgage, a new low down payment option that will serve the needs of more First-Time Homebuyers. HomeOne Mortgages will have loan-to-value (LTV), total LTV (TLTV) and/or Home Equity Line of Credit (HELOC) TLTV (HTLTV) ratios above 95%. This offering will complement their Home Possible offering by providing a low down payment financing option for Borrowers **without specific income or geographic restrictions**.

- When all Borrowers are First-Time Homebuyers, at least one Borrower must participate in homeownership education. This requirement may be fulfilled with the free, online CreditSmart® program or another acceptable homeownership education program.

- The maximum LTV/TLTV/HTLTV ratios are:
    - Maximum LTV ratio: 97%
    - Maximum TLTV ratio for Mortgages with secondary financing that are not Affordable Seconds®: 97%
    - Maximum TLTV ratio for Mortgages with Affordable Seconds: 105%
    - Maximum HTLTV ration: 97%

- The Mortgage must be:
  - A Loan Product Advisor Mortgage with a Risk Class of Accept (Manually Underwritten Mortgage are not permitted)
  - A purchase transaction or "no-cash-out" refinance Mortgage. For a "no-cash-out refinance Mortgage, the Mortgage being refinanced must be owned or securitized by Freddie Mac unless it has secondary financing that is an Affordable Second. To identify if Freddie Mac owns the Mortgage, the Borrower can look up the loan in Freddie Mac's Loan Look-Up Tool or authorize the lender to obtain this information on the Borrower's behalf.
  - Secured by a 1-unit Primary Residence. Eligible property types include Condominium Units and units in Planned Unit Developments. Manufactured Homes are not permitted.
  - A fixed-rate Mortgage

- If the Mortgage has an LTV ratio greater than 95%, it must have standard mortgage insurance coverage of 35%. CMG does not permit custom mortgage insurance.

Effective Date: *CMG will be looking to offer this new product option to coincide with Freddie Mac's July Loan Product Adviser update. Loan Product Advisor will be updated on July 29, 2018 to support the HomeOne Mortgage. There will be new Loan Product Advisor feedback messages which will be communicated at a future date.*

FREDDIE MAC ANNOUNCES REVISED HOME POSSIBLE INCOME LIMITS

Summary: Freddie Mac is revising the income limit requirements for Home Possible and Home Possible Advantage Mortgages. For all Home Possible Mortgages, with the exception of those secured by Mortgaged Premises located in a low-income census tract, the Borrower's income, converted to an annual basis, must not exceed 100% of the AMI. There will continue to be no income limit for Mortgaged Premises located in low income census tracts where the median income is at or below 80% AMI. With these revisions to the Freddie Mac Guide, the Glossary term "Underserved Area" is no longer used in the Guide and will be deleted. Freddie Mac will continue to purchase Mortgages secured by properties located in designated high-cost areas, census tracts designated as disaster areas and minority census tracts; however, these Mortgages will now be subject to the maximum 100% AMI requirement.

Loan Product Advisor enhancements for income changes:

Loan Product Advisor is scheduled to be enhanced on July 29, 2018 to assess eligible Home Possible Mortgages against the previous and/or current year income limits, applying the better of the two years' limits.

- Lenders will no longer need to retain the original Feedback Certificate when the Mortgage receives an Accept-Ineligible based on the Home Possible income limits.
  - The better of the income limits will be based on:Home Possible and Home Possible Advantage income eligibility requirements which census tracts designated as disaster areas and high minority census tracts for higher income limits in designated high-cost areas, properties located in census tracts designated as disaster areas and high minority census tracts

- The 2017 AMI limits

- 2018 refers to the revised Home Possible and Home Possible Advantage income eligibility requirements in effect on and after July 29, 2018, which include 2018 AMI limits and 100% AMI limits except for properties located in low-income census tracts

Loan Product Adviser Determination of Income Limits	
When the Mortgage is submitted as a Home Possible Mortgage on and after July 29, 2018, and…	Then the following income limits are applied…
The last submission before July 29, 2018 was also a Home Possible Mortgage, and income limits were met	The better of income limits for 2017 or 2018
• The Mortgage is submitted for the first time • The Key Number cannot be identified, or • The last submission before July 29, 2018 was not submitted as Home Possible and/or did not meet the income eligibility limits	2018

The revised Home Possible Mortgage income limits and 2018 AMI limits will also be implemented in the Home Possible® Income & Property Eligibility tool on July 29, 2018.

Effective Date: *July 29, 2018*

FANNIE MAE DU UPDATES COMING JUNE 23, 2018

Summary: During the weekend of June 23, Fannie Mae will implement an update to DU. This release includes a change that allows lenders to instruct DU to disregard bankruptcy information in the eligibility assessment that is incorrect or due to extenuating circumstances*. It will also allow lenders to disregard excessive mortgage delinquency information that is incorrect. Other changes with the release include updates to DU validation service, Potential Casefile Reuse, IPC Data Field retirement, and Detached Condo Updates.
This release includes updates to the following:

- Bankruptcy and Mortgage Delinquency Assessment
- DU Validation Service
- Potential Casefile Reuse
- IPC Data Field Retirement
- Detached Condo Updates

* As a reminder, extenuating circumstances must be approved by Corporate Credit in addition to valid Approve/Eligible findings.

BANKRUPTCY AND MORTGAGE DELINQUENCY ASSESSMENT

DU obtains information from the credit report and determines if a borrower had declared bankruptcy, or if the borrower has a mortgage that has been delinquent. This information is then used in the eligibility assessment of the loan casefile to determine

- if bankruptcy waiting period requirements have been met, and
- whether the loan casefile meets our mortgage delinquency policy.

With this update, lenders will have the ability to instruct DU to disregard bankruptcy information in the eligibility ssessment that is incorrect or due to extenuating circumstances*, or disregard excessive mortgage delinquency information that is incorrect.

*As a reminder, extenuating circumstances must be approved by Corporate Credit in addition to valid Approve/Eligible findings and a manual check of eligibility.

Inaccurate Bankruptcy

When DU identifies a bankruptcy on the credit report and that information is inaccurate, the lender may instruct DU to disregard that bankruptcy information in the eligibility assessment. This can be done by entering “Confirmed CR BK Incorrect" in the Explanation field for question b. in the Declarations section of the DU loan application, and resubmitting the loan casefile to DU. When DU sees this indication, the bankruptcy information on the credit report will not be used in the eligibility assessment.

DU will then issue a message stating that the bankruptcy information was not used in the eligibility assessment because DU was instructed by the user to underwrite the loan casefile without it. The lender must then document that the borrower did not declare bankruptcy, or that loan meets the applicable waiting period requirements:

- a Chapter 13 bankruptcy must be two or more years or dismissed four or more years from the disbursement date of the new loan, or
- all other bankruptcy types must be discharged or dismissed four years or more years from the disbursement date of the new loan.

Bankruptcy due to Extenuating Circumstances*

When DU identifies a bankruptcy on the credit report and it was due to extenuating circumstances*, the lender may instruct DU to disregard the information. The lender must confirm that the bankruptcy meets the applicable timeframes and eligibility requirements for a bankruptcy due to extenuating circumstances*. This can be done by entering “Confirmed CR BK EC" in the Explanation field for question b. in the Declarations section of the DU loan application, and resubmitting the loan casefile to DU. When DU sees this indication, the bankruptcy information will not be used in the eligibility assessment.

DU will issue a message stating that the bankruptcy information was not used in the eligibility assessment because DU was instructed by the user to underwrite the loan casefile without it. The lender must document that the bankruptcy was due to extenuating circumstances* and the loan meets the applicable waiting period requirements:

- a Chapter 13 bankruptcy must be dismissed two or more years from the disbursement date of the new loan, or
- all other bankruptcy types must be discharged or dismissed two or more years from the disbursement date of the new loan.

*As a reminder, extenuating circumstances must be approved by Corporate Credit in addition to valid Approve/Eligible findings and meeting the appropriate waiting period.

Inaccurate Mortgage Delinquency

When DU identifies that a mortgage is currently past due by two or more payments, or has been delinquent 60-days or more in the last 12 months, and that information is inaccurate, the lender may instruct DU to disregard that information in the eligibility assessment. This can be done by entering “Confirmed Mtg Del Incorrect" in the Explanation field for question f. in the

Declarations section of the DU loan application, and resubmitting the loan casefile to DU. When DU sees this indication, the mortgage delinquency on the credit report will not be used in the eligibility assessment.

DU will then issue a message stating that the mortgage delinquency information was not used in the eligibility assessment because DU was instructed to underwrite the loan casefile without the information. The lender must then document that the mortgage is not currently past due by two or more payments, and that it has not been 60 days or more past due in the last 12 months.

New Bankruptcy, Foreclosure, and Mortgage Delinquency Messages
When a Refer with Caution is issued due to the overall risk of the loan, and not solely due to a 60-day or more mortgage delinquency, or a previous bankruptcy or foreclosure, entering the "'Confirmed Incorrect" or "Confirmed EC" codes will not change the recommendation. To make it clear to lenders when the use of one of the codes did not impact the recommendation, DU will issue a new message. This message will specify that DU was instructed to underwrite the loan casefile without the bankruptcy, foreclosure, or mortgage delinquency information on the credit report; however, this instruction was not used as the Refer with Caution recommendation was not issued solely due to the bankruptcy, foreclosure, or mortgage delinquency, but due to the overall risk of the loan.

DU VALIDATION SERVICE

Income validation: To ensure income is eligible for validation, DU will now confirm the borrower has been on his or her current employer for at least 12 months, based on the "Years/Months on Job" provided on the DU loan application. If the "Years/Months on Job" do not reflect a minimum of 12 months, income will not be validated and a message will be issued informing the lender that income was not validated due to the 12 month requirement.

Note: DU will also continue to confirm that the minimum history requirement applicable to the income type has been met based on the vendor report.

Asset validation: DU only uses reports from a single vendor to validate assets. DU will issue a new message when reports from multiple vendors are received that will specify which reports were used for asset validation.

POTENTIAL CASEFILE REUSE

A DU loan casefile ID is unique to an individual mortgage loan – the same casefile ID may not be used to underwrite more than one mortgage loan. A new Potential Red Flag message will be added to DU to remind lenders of this requirement. When the subject property address or the Doc File ID is changed from the previous submission, DU will issue a message informing the lender that one of these items has changed from a previous submission and remind the lender that the same loan casefile may not be used to underwrite more than one mortgage loan.

Once the message is issued, it will continue to be issued on all resubmissions, even if the information is changed back to the original values. This is because there have been instances where loan casefile information is changed back and forth between two (or more) different loans. Issuing the message on subsequent resubmissions will help ensure the lender has all of the information needed to confirm that only one loan is delivered with the specific loan casefile ID, and also help the lender confirm that the last submission of that loan casefile reflects the final terms of the specific closed loan.

Note: The address comparison and the Doc File ID comparison will only be done if both the previous and the current information are complete and accurate. For example, an address of

“TBD” would not be compared so the message would not be issued when a valid address was provided.

IPC DATA FIELD RETIREMENT

The IPCs: Excess Financing Concessions or Sales Concessions Amount field will no longer be used in DU Version 10.2. Any value provided in the field will not be used in any calculations or messages. As a reminder, when interested party contributions (IPCs) exceed the limits specified in the Selling Guide, they are considered sales concessions. The property’s sales price must then be adjusted downward to reflect the amount of contribution that exceeds the limit. The following is an example of how this must be reflected in DU:

Purchase price: $300,000
LTV = 94% (IPC limit is 3%)
Seller paid closing costs: $15,000
Sales concessions: $6,000 ($15,000-$9,000 IPC limit)

a. Purchase price	$294,000*
b. Alterations, improvements, repairs	
c. Land (if acquired separately)	
d. Refinance (incl. debts to be paid off)	
e. Estimated prepaid items	$1,500
f. Estimated closing costs	$3,000
g. PMI, MIP, Funding Fee	
h. Discount (if Borrower will pay)	
i. Total costs	$298,500
j. Subordinate financing	
k. Borrower's closing costs paid by Seller	$9,000*
l. Other Credits (explain)	
m. Loan amount (exclude PMI, MIP, Funding Fee financed)	$279,300
n. PMI, MIP, Funding Fee financed	
o. Loan amount	$279,300
p. Cash from/to Borrower	$10,200

*Line a would be adjusted downward by the amount of the sales concession, and Link k would be adjusted downward by the same amount in order for line p to calculate correctly.

DETACHED CONDO UPDATES

Selling Guide Announcement SEL-2018-01 specified policy updates on detached condo units. In support of those policy changes, the following updates will be made to DU:

- The detached condo project review message will be modified to state that a project review is not required. The message will also require the lender to confirm that the project and the unit are in compliance with all other Fannie Mae requirements for property eligibility and appraisal standards, and that the project and unit have the required insurance.
- All references to site condos, including Special Feature Code (SFC) 917, will be removed.

Effective Date: June 23, 2018

Links: View the full release notes for more details.

FLEX JUMBO 6400 SERIES UPDATES

Summary: The following updates are effective May 1, 2018

- Bitcoin or other crypto currency is not considered an acceptable source of funds/asset
- Domestic Partner Benefit is an ineligible income source
- For eligible Employment Contract the borrower is not to be employed by a family member or by an interested party to the transaction.
- Clarified rental/investment property income to reflect the following:
    - if an investment property is not reflected on the prior year’s tax returns (purchase transaction or subject property was acquired subsequent to filing the most recent tax returns) 75% of the monthly gross rental income may be utilized for qualification, less applicable PITIA. Copy of executed current lease agreement (s) with minimum of 12 months term is required. In the event if subject transaction is a purchase transaction and executed lease is not available, monthly rental income can be obtained from Comparable Rent schedule less 25% for vacancy factor. NOTE: If an investment property was

acquired subsequent to filing the most recent tax returns minimum seasoning requirement must be met: 6 months
ownership.

- Rapid Rescore - CORRECTION (REPLACING OF WITH OR)

    - Rapid Rescore or Credit Supplements are not acceptable if the change from the initial credit report pertains to payoff OR pay down of revolving debt. They are acceptable for changes to
    initial credit report that correct errors in the report

Effective Date: *These changes are effective as of 5/1/2018. Guidelines will be updated and reposted by May 1st.*

VA NEW REQUIREMENTS FOR REFINANCING CONSTRUCTION LOANS

Summary: On April 6th, VA issued Circular 26-18-7 addressing new requirements and guidance for Construction/Permanent Home Loans. This circular replaces Chapter 7, Topic 2 Construction Loans in the VA Lender's Handbook. Within the circular, VA addresses two time close transactions. Although CMG does not participate in one time close transactions nor construction loans, there are times where CMG purchases loans where permanent financing is used to take out, or replace the initial loan. Below are some of the notable items that apply to the permanent financing:

- Two-time construction loan process specifies that the permanent loan is to be guaranteed as a purchase. Transaction types:

    - Transactions in which a Veteran has signed a contract to build will be considered a purchase, regardless of the category shown on the closing disclosure, except as noted below. The lender must order the case as "new construction and purchase" in WebLGY.
    - Transactions in which a Veteran acted as their own contractor, and/or hired subcontractors may be considered a purchase. All labor and material costs must be documented by receipts, work orders, and/or contractual agreements to establish the acquisition price. The case must be ordered as a new construction and purchase in WebLGY.
    - Transactions in which construction was completed and at least 1 year has passed as evidence by a Certificate of Occupancy, or other evidence by the taxing authority will be treated as refinance. A new VA appraisal after the date of the CO is required, and should be ordered as a VA cash-out refinance in WebLGY.

- Funding Fee:

    - For two-time close construction loans, the funding fee is due within 15 days of the VA permanent loan closing and the loan must be reported to VA within 60 days of receipt of the clear final compliance inspection report.
    - For the purpose of reducing the funding fee, ownership of the land by the borrower(s) prior to construction is eligible to count as a downpayment for purposes of reducing the funding fee, provided that the appraisal assigns a value to the unimproved land, and the value will count contracts for deed are not considered owned by the

borrower.only to the extent that the loan amount is less than the NOV value. Note: Lots held as contracts for deed are not considred owned by the borrower.

- Guaranty: The guaranty will not be issued until a clear final compliance inspection report has been received by VA.

Action to Take: When underwriting the permanent financing for a Veteran that is "refinancing" a construction lien, follow requirements as noted in Circular 26-18-7.

Effective Date: *The Circular does not specify an effective date. At this time, the effective date is assumed to be based on case number issue date. This means any case numbers issued after April 5th must have the guaranty as a purchase.*

Link to Circular:https://www.benefits.va.gov/HOMELOANS/documents/circulars/26_18_7.pdf

FREDDIE MAC TRAINING OPPORTUNITY

Check Out Freddi Mac Loan Closing Advisor® Training

Are your correspondents interested in how to use Loan Closing Advisor® to submit the Uniform Closing Dataset (UCD)? Tell them about Freddie Mac's new training: Loan Closing Advisor for Correspondents.

In this training, they'll learn how to obtain access to the tool, how it works and what results they'll need to meet the UCD mandate requirements.

Register Today

Note: Correspondents must have a Freddie Mac third-party originator (TPO) number to register and obtain Loan Closing Advisor credentials. Correspondents who do not have a TPO number, should visit the Loan Closing Advisor web page click "Get Started" and follow the onscreen prompts.

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

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