
TO: Distribution

DATE: May 13, 2020

**RE: CMG Financial Correspondent Lending
Updates 2020-28**

EFFECTIVE: As noted below

CMG FINANCIAL CORRESPONDENT LENDING UPDATES

Topics Covered in this Announcement:

- Fannie Mae & Freddie Mac COVID-19 Updates
- USDA Income Limits and Handbook Updates
- Disaster Updates- Mississippi

FANNIE MAE & FREDDIE MAC COVID-19 UPDATES

Summary: Fannie Mae and Freddie Mac have announced the extension of effective dates for the COVID-19 related flexibilities. They have extended the application dates for these temporary policies to June 30, 2020 (previously May 17, 2020). In addition, they have provided the following updates and clarifications:

Employment validation by the DU validation service (Fannie Mae/DU loans)

For new Desktop Underwriter® (DU®) loan casefiles created on or after May 4, 2020 through Jun. 30, 2020. To support sustainable homeownership while ensuring prudent risk management during these times of unprecedented unemployment, Fannie Mae is temporarily suspending representation and warranty relief **for employment validation** within the Desktop Underwriter® (DU®) validation service. Lenders must perform a verbal verification of employment in accordance with B3-3.1-07, Verbal Verification of Employment or follow the temporary policies outlined below.

- While representation and warranty relief for employment validation is temporarily suspended, lenders will still be able to take advantage of the income and asset validation services with representation and warranty relief.
- Income validation for a borrower remains dependent on the borrower being employed. Lenders should continue to verify the employment of the borrower as close to closing as possible.
- When income or assets are validated, lenders should continue to follow the close-by dates and instructions issued in DU messages.
- **Reminder: CMG continues to require the Verbal Verification of Employment within 5 (five) business days of the date the borrower signs the note (previously 10) with the following guidance for third party verifications (i.e., The Work Number (TWN)):**
 - Third party verification must be pulled within 5 business days of the signing of the note.
 - If the “as of” date is within five business days of the note signing date, this is acceptable.
 - If the “as of” date is not within 5 business days of the note signing date, provide one of the following:
 - A standard vvoe* (includes the verification that the borrower is still fully employed)
 - a paystub or bank statement deposit reflecting the most recent pay period; the paystub or bank statement deposit must be cleared by the underwriter (to review for possible reduction of hour

and/or pay).

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Unemployment benefits as qualifying income

Reminder: Unemployment benefits cannot be used to qualify a borrower unless they are clearly associated with seasonal employment that is reported on the borrower's signed federal income tax returns. It is recognized that many unemployed and furloughed individuals are eligible for unemployment benefits under the CARES Act; however, unemployment compensation is short-term in nature and is therefore not a reliable and predictable source of income for borrowers who are not established seasonal workers.

Furloughed borrowers

The COVID-19 pandemic has resulted in an increase in furloughed employees. A furlough is a suspension from active employment that does not typically guarantee restoration of an employee's position when the furlough period ends. Until furloughed employees actually return to work, they are unable to provide evidence of a stable and reliable flow of employment-related income and are therefore ineligible under our Temporary Leave Income policy.

The requirements for Income while on temporary leave do not extend to employer-initiated actions, such as furloughs and layoffs regardless of whether there is an expected return to work date.

Self-employed borrowers with the new SBA PPP

If a self-employed Borrower has taken out an SBA PPP loan under the CARES Act, no payment, estimated or otherwise, need be included in the DTI or considered in the income calculation (e.g., as a deduction from income) at this time. This guidance may change as more information about the PPP loans becomes available, including the amount of loan forgiveness (e.g., full, reduced or none) which will be determined at a later date.

Links: [Fannie Mae COVID-19 FAQ](#) [Freddie Mac COVID-19 FAQ](#)

USDA INCOME LIMITS AND HANDBOOK UPDATES

Summary: The Fiscal Year 2020 income limits for the Single Family Housing Guaranteed Loan Program were published on May 4, 2020 through a [Special Procedure Notice](#). The Guaranteed Underwriting System (GUS) and the Income Eligibility calculator on the [Eligibility website](#) have been updated with the new income limits. In addition, USDA continues to update Handbook HB-1-3555 and issue procedure notices. For a year to date summary, please see addition information below.

Newer info on the LINC Training and Resources page:

- [Origination and Servicing FAQs](#) (Included COVID-19 related FAQ)
- [HB 10 Revision Aid](#) (Chapter 10 is Credit Analysis) As noted above, Chapter 10 Credit Analysis has been revised to clarify credit qualifications, adverse credit and Federal debts. The handbook chapter has been streamlined to eliminate 16 pages. A Credit Matrix is added to assist users to efficiently locate credit topics.
- [Advance Copy of Chapter 11](#) (Chapter 11 is Ratio Analysis)
- [HB 11 Revision Aid](#) (Chapter 11 is Ratio Analysis) As noted above, Chapter 11 has been revised to clarify credit accounts, ratio thresholds, debt ratio waiver exceptions, and compensating factors.

2020 Procedure Notices impacting HB-1-3555 – key highlights are noted:

- [Special PN Changes to HB-1-3555 \(Income Limits\), May 4, 2020](#) – New!
 - the effective date of these income limits in May 4, 2020.
- [PN 536 Changes to HB-1-3555, April 30, 2020](#) – New!
 - Chapter 11 Ratio Analysis (<https://www.rd.usda.gov/sites/default/files/3555-1chapter11.pdf>): Updated to clarify monthly mortgage liabilities, when a liability may be omitted from the total debt ratios and streamline compensating factor guidance and the following Paragraph 11.2 B updates:
 - PITI: The individual items that may be applicable to the PITI payment are outlined.
 - **Long term obligations:** This section was changed to "Installment accounts". Clarification is

included for debts may be excluded from the debt ratio.

- **Revolving accounts:** Additional account types are listed for enhanced guidance.
- **Court ordered debts:** This is a new section heading, but the guidance is unchanged. Student loans: The minimum required payment for a non-fixed student loan is reduced to the greater of .50 percent of the loan balance or the current documented payment under the approved repayment plan with the creditor. Additional guidance has been added for individual student loan debts paid by another party and forgiveness plans.
- **Previous Mortgage:** This section has been revised to include three separate previous mortgage areas of guidance. The new chapter includes guidance for rental property, no release of liability, and divorce.
- **Tax repayment agreements:** This is a new section to address Federal and State income tax repayment plans.
- **Lease payments:** This is a new section to address auto, solar, energy, and additional lease payments.

○ **Chapter 12 – Property and Appraisal Requirements** <https://www.rd.usda.gov/sites/default/files/3555-1chapter12.pdf>

- Guidance on sites with multiple parcels was added.
- Guidance on properties with solar panels was added.
- Added guidance for individual water systems in Hawaii and the Western Pacific Region.
- Removed requirement to consider the cost of connecting individual sewage systems to public systems.
- Added guidance for excluding current mortgage payments for borrowers who are pending the sale of their current dwelling subject to completion and closing of a new construction loan.

● [PN 535 Changes to HB-1-3555, March 31, 2020](#)

- **Appendix 2:** Replaced forms related to the obsolete RD Instruction 1940-G, with the appropriate Instruction 1970 environmental forms. Revised the chapters where the forms are referred to in the HB-1-3555. Removed reference to Form RD 3555-20. Removed reference to RD Instruction 1900-D as it will no longer be referenced in the HB-1-3555.

● [PN 534 Changes to HB-1-3555, March 19, 2020](#) – Chapter 10: <https://www.rd.usda.gov/sites/default/files/3555-1chapter10.pdf>

Credit Analysis to clarify credit qualifications, adverse credit, and Federal debts. A matrix was added to lending 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.
 - 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 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.
 - Delinquent/derogatory debt/collections: 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. 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.
- [PN 533 Changes to HB-1-3555, January 15, 2020](#)
 - Miscellaneous updates impacting Chapter 2 (record retention), 6 (loan purposes), 16 (Closing the loan and Requesting the Guarantee)

Links to websites:

- SFHGLP Lending Partner Webpage: <https://www.rd.usda.gov/page/sfh-guaranteed-lender>
- SFHGLP webpage: <https://www.rd.usda.gov/programs-services/single-family-housing-guaranteed-loan-program>
- USDA LINC Training and Resource Library:
- <https://www.rd.usda.gov/programs-services/lenders/usda-linc-training-resource-library>
- Procedure Notices: <https://www.rd.usda.gov/resources/directives/procedures-notice>

DISASTER UPDATES- MISSISSIPPI

Summary: FEMA has issued a disaster declaration update for DR-4536 in the state of Mississippi, adding six counties for a total of nine with individual assistance. CMG’s disaster policy is in effect for these counties.

Mississippi Severe Storms, Tornadoes, Straight-line Winds, And Flooding (DR-4536)

Incident Period: April 12, 2020

Major Disaster Declaration declared on April 16, 2020

Designated Counties (Individual Assistance): Clarke, Covington, Grenada, Jasper, Jefferson Davis, Jones, Lawrence, Panola, Walthall

Since the incident date is > 14 days ago, FHA loans are eligible for re-inspection at this time. If the effective date of the

appraisal is on or after the date required above for an inspection, a separate damage inspection report is not necessary.

Links: <https://www.fema.gov/disaster/4536>, [amendment #1 adding counties May 8th, 2020](#)

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