

BULLETIN #2017-21

TO: Distribution

DATE: May 24, 2017

RE: CMG Financial Correspondent Lending Updates

EFFECTIVE: As noted below

CMG FINANCIAL CORRESPONDENT LENDING UPDATES

Topics Covered in this Announcement:

- USDA Updates
- Freddie Mac Bulletin 2017-7
- VA Circular 26-17-14- VA Appraisals and Comparables
- Fannie Mae Updates: Student Loan Payment Calculation and Student Loan Cash-Out Refinance

USDA UPDATES

Summary: Recent USDA released Procedure Notice 498 with updates that include the following:

- USDA released revisions to the Property and Appraisal Requirements (Chapter 12) of HB-1-3555 SFH Guaranteed Loan Program Handbook. This update includes numerous clarifications:
 - Paragraph 12.4, language added to clarify site requirements and income producing buildings. Added new reference to Accessory Dwelling Units (ADU's). Added reference to zoning and economic life requirements which was previously in a different paragraph
 - Paragraph 12.5, clarified language and changed reference to the appraisal age from 120 days to 150 days at closing.
 - Paragraph 12.6(A)(1), modified valid timeframe for water analysis from 120 days to 150 days to match appraisal valid timeframe. Clarified well separation distance language. Removed cisterns as an ineligible water source.
 - Please refer to revised chapter for completed details: <https://www.rd.usda.gov/files/3555-1chapter12.pdf>
- The 2017 [Income Limits](#) for the Single Family Guaranteed Loan Program were published May 17, 2017 through a special [Procedure Notice](#) (PN). The Guaranteed Underwriting System (GUS) and the Income Eligibility calculator in the [Eligibility website](#) have been updated to use the new income limits.

Effective Date: The effective date for Handbook updates use of the Appendix for income limits is May 17, 2017. As noted above, GUS is updated in regards to the income limits.

FREDDIE MAC BULLETIN 2017-17

Summary: On May 17, Freddie Mac released Bulletin 2017-7 announcing the following:

- **Collateral representation and warranty relief.** Freddie Mac announced expansion of mortgages eligible to be considered for collateral representation and warranty relief to be effective May 19th. This includes cash-out refinance Mortgages, special purpose cash-out refinance Mortgages, and Texas Equity Section 50(a)(6) Mortgages. Loan Product Advisor® and Selling System® feedback messages will be updated by May 19, 2017 to reflect these changes.
- **Proceeds of a “no cash-out” refinance** can be disbursed as cash out to the Borrower (or any other payee) in an amount not to exceed 2% of the new refinance mortgage or \$2,000, whichever

is less. The selling guide now specifies that any cash back to the Borrower from the proceeds of a subject “no cashout” refinance Mortgage is not an eligible source of funds to meet reserves requirements.

- **Condominium Project and Planned Unit Development (PUD) insurance**
 - **Detached Condominium Project review type.** For Condominium Projects that are reviewed under the Detached Condominium Project review type, Seller/Serviceers are no longer required to determine the existence or adequacy of:
 - Fidelity or employee dishonesty insurance coverage
 - Liability insurance for Condominium Project
 - Freddie Mac is no longer requiring insurance on Common Elements of a PUD, when the insurance value of the PUD's Common Elements is minimal or does not exist. This was effective April 20, 2017.

Link: <http://www.freddiemac.com/singlefamily/guide/bulletins/pdf/bl11707.pdf>

VA CIRCULAR -26-17-14 VA APPRAISALS AND COMPARABLES

Summary: VA issued Circular 26-17-14 issued on May 19, 2017 provides clarification for distance requirements of comparable sale properties used in VA appraisals.

- VA does not set minimum or maximum distance requirements between the subject and comparable sale properties. VA Lender’s Handbook chapter 11, section 7, subsection e, states: “Comparable sales should be located as close to the subject as practical.” This may have caused some confusion especially concerning suburban or rural properties where comparable sales may not be ideally located near the subject. This Circular is a clarification of current policy.

Action to Take: In suburban or rural communities, the market areas may be greatly expanded and suitable comparable sales may be many miles away from the subject. In such cases, the appraiser should specify why those comparable sales were used and how they compare/compete with the subject. The appraiser should evaluate whether extended distances are normal for this market, submit a description of the market area, and determine whether the comparable sales are within the subject’s market. The appraiser should also indicate whether or not any adjustments were made for locality or proximity. If there are any other recent comparable sales closer to the subject, include a discussion regarding why they were not used. Providing detailed commentary about the market and comparable selection may reduce the number of requests for revisions of appraisals.

Effective Date: Clarification is effective immediately.

Link: [VA Circular 26-17-14](#)

FANNIE MAE UPDATES: STUDENT LOAN PAYMENT CALCULATION AND STUDENT LOAN CASH-OUT REFINANCE

LOAN PAYMENT CALCULATION

The options available to calculate the monthly payment amount for student loans are simplified. The resulting policy will be easier for lenders to apply, and may result in a lower qualifying payment for borrowers with student loans.

- If a payment amount is provided on the credit report, the amount can be used for qualifying purposes.
- If the credit report does not identify a payment amount (or reflects \$0), the lender can use either 1% of the outstanding student loan balance, or a calculated payment that will fully amortize the loan based on the documented loan repayment terms.

Action to Take: The current Desktop Underwriter® (DU®) message issued when an installment debt on the loan application does not include a monthly payment will be updated in a future release to reflect this new policy. Until then, lenders may disregard the statement in the message specifying the previous policy and follow the requirements in the Selling Guide.

Effective Date: *This policy change is effective immediately.*

STUDENT LOAN CASH-OUT REFINANCE

With this update, Fannie Mae introduced the student loan cash-out refinance feature, a cost-effective alternative to use existing home equity to pay off student loan debt. This feature provides the opportunity for borrowers to payoff one or more student loans through the refinance transaction, potentially reducing their monthly debt payments. The loan-level price adjustment that applies to cash-out refinance transactions will be waived when all requirements have been met.

The student loan cash-out refinance feature contains elements of both a cash-out refinance and a limited cash-out refinance transaction as described in the table below.

Student Loan Cash-out Refinance Features		
Student Loans Eligible for Payoff	<ul style="list-style-type: none"> At least one student loan must be paid off. Loan proceeds must be paid directly to the student loan servicer at closing. Only student loans for which the borrower is personally obligated can be paid through the transaction. Student loan debt must be paid in full with the proceeds – partial payments of student loan debt are not permitted. 	New policy
Eligibility	The standard cash-out refinance LTV, CLTV, and HCLTV ratios apply.	Aligns with cash-out refinance
Maximum Cash Back	Lesser of 2% or \$2,000 (over and above the student loan payoff)	Aligns with limited cash-out refinance
Mortgage payoff	1 st mortgage and purchase money seconds	
Other Requirements	<ul style="list-style-type: none"> Property cannot be listed for sale at time of disbursement Payoff of taxes ineligible unless escrow account is established Payoff of delinquent taxes ineligible 	

Loan eligible must utilize Special Feature Code (SFC) 841 - Student Loan Cash-Out Refinance.

Action to Take: The loan must be underwritten in DU. The Correspondent lender must notify the CMG lock desk cmglockdesk@cmgfi.com of eligibility for this feature in order for the cash-out pricing adjustment to be waived.

Effective Date: This policy is effective immediately. DU is not currently able to identify these transactions or issue specific messaging so lenders must confirm the loan meets all the requirements to include SFC 841.

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

3160 Crow Canyon Road, Suite 400, San Ramon, CA. 94583 | 800.501.2001 | NMLS #1820 | www.cmgfi.com

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