



TO: Distribution

DATE: May 28, 2020

**RE: CMG Financial Correspondent Lending
Updates 2020-33**

EFFECTIVE: As noted below

CMG FINANCIAL CORRESPONDENT LENDING UPDATES

Topics Covered in this Announcement:

- Reminder of Critical Details of GSE Refinance and Home Purchase Eligibility for Borrower in Forbearance
- Reminder- Borrowers Returning to Work
- Reminders- Appraisal Flexibilities

REMINDER OF CRITICAL DETAILS OF GSE REFINANCE AND HOME PURCHASE ELIGIBILITY FOR BORROWER IN FORBEARANCE

Summary: Fannie Mae and Freddie Mac (the Enterprises) have issued temporary guidance regarding the eligibility of borrowers who are in forbearance, or have recently ended their forbearance, looking to refinance or buy a new home.

Effective Date: Immediate. Lenders may immediately apply these policies to loans in process and must apply them to loans with application dates on or after Jun. 2, 2020. These policies will be effective until further notice

Details of temporary eligibility requirements for purchase and refinance transactions

Lenders must continue to review the borrower's credit report to determine the status of all mortgage loans. In addition to reviewing the credit report, the lender must also apply due diligence for each mortgage loan on which the borrower is obligated, including cosigned mortgage loans and mortgage loans not related to the subject transaction, to determine whether the payments are current as of the note date of the new transaction. For the purposes of these requirements, "current" means the borrower has made all mortgage payments due in the month prior to the note date of the new loan transaction by no later than the last business day of that month. Examples of acceptable additional due diligence methods to document the loan file include:

- a loan payment history from the servicer or third-party verification service,
- a payoff statement (for mortgages being refinanced),
- the latest mortgage account statement from the borrower, and
- a verification of mortgage.

A borrower who is not current and has missed payments on any mortgage loan is eligible for a new mortgage loan if those missed payments were resolved in accordance with the requirements in the table below.

Resolution Method	Eligibility
Reinstatement (pay all the forbore payments at once)	If the borrower resolved missed payments through a reinstatement, they are eligible for a new mortgage loan. The lender must document the source of funds in accordance with eligible sources of funds in the Selling Guide, if the reinstatement was completed after the application date of the new transaction. Proceeds from a refinance may not be used to reinstate any mortgage loan.
Loss Mitigation Solution	<p>If outstanding payments will be or have been resolved through a loss mitigation solution, the borrower is eligible for a new mortgage loan if they have made at least three timely payments as of the note date of the new transaction as follows:</p> <ul style="list-style-type: none"> For a repayment plan, the borrower must have made either three payments under the repayment plan or completed the repayment plan, whichever occurs first. Note that there is no requirement that the repayment plan be completed. For a payment deferral, the borrower must have made three consecutive payments following the effective date of the payment deferral agreement. <i>(prior to Note date)</i> For a modification, the borrower must have completed the three-month trial payment period. For any other loss mitigation solution not listed above, the borrower must have successfully completed the program, or made three consecutive full payments in accordance with the program. <p>Verification that the borrower has made the required three timely payments may include:</p> <ul style="list-style-type: none"> a loan payment history from the servicer or third-party verification service, the latest mortgage account statement from the borrower, and a verification of mortgage. <p>If these requirements are met on an existing mortgage loan being refinanced, the new loan amount can include the full amount required to satisfy the existing mortgage.</p>

Fannie Mae additional notes: We are not considering payments missed during the time of a COVID-19-related forbearance that have been resolved to be historical delinquencies for purposes of our excessive mortgage delinquency policy as outlined in B3-5.3-03, Previous Mortgage Payment History. This flexibility does not apply to high LTV refinance loans, which must continue to meet the payment history requirements in B5-7-02, High LTV Refinance Underwriting, Documentation, and Collateral Requirements for the New Loan.

Freddie Mac additional notes:

- Enhanced Relief Refinance® Mortgages: These temporary requirements do not apply to Enhanced Relief Refinance® Mortgages. All of the requirements in Guide Chapter 4404, including the payment history requirements applicable to the Mortgage being refinanced and the use of refinance proceeds, continue to apply.
- Loan Product Advisor® and Guide updates: Loan Product Advisor® feedback messages and the Guide will not be updated to reflect these temporary requirements.

Links:

[Fannie Mae Announcement](#)

[Freddie Mac Bulletin 2020-17](#)

FHA Announcement: <https://www.fhfa.gov/Media/PublicAffairs/Pages/FHFA-Announces-Refinance-and-Home-Purchase-Eligibility-for-Borrowers-in-Forbearance.aspx>

REMINDER- BORROWERS RETURNING TO WORK

.As local governments begin to authorize businesses to open, CMG must 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.
- Variable income sources – For variable income sources, the borrower must be back to work for a sufficient length of time to establish current income levels and stability. The length of time may vary from situation to situation. Generally, it will be difficult to establish stable income levels in less than two months and it may take considerably longer in some situations.

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. Recent business bank statements may also be required to help analyze cash flow and expenses.
- 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.

REMINDERS- APPRAISAL FLEXIBILITIES

Summary: As a reminder, not all transactions are eligible for appraisal flexibility. CMG cannot REQUIRE an interior inspection, but also cannot close on a transaction unless an eligible appraisal or alternative is obtained.

1. Refinance transactions:
 - A desktop is never permitted for a refinance (neither conventional nor FHA nor USDA)
 - For any refinance transaction, CMG must authorize any Exterior appraisal flexibility – appraisal flexibility for an exterior appraisal is extremely limited for refinance transactions. Not permitted on cash-out and only permitted on a rate/term if the loan is Fannie-owned to Fannie or Freddie-owned to Freddie.
2. UCDP / SSRs should continue to have "successful" findings, even when appraisal flexibility is used. "Unsuccessful" results are not acceptable.
3. When using a flexible option, the following apply in additional to transaction level eligibility:
 - The correct form must be used.
 - A desktop is completed on the standard full appraisal form
 - For conventional conforming, exterior only forms are required. (Notes: Detached condos can use the 2055 if the same requirements are met as required for the detached condo to be eligible for a 1004 full. Manufactured homes are the exception – there is no applicable exterior form so the full 1004C is used and map reference will reference "Exterior".)
 - In addition to the correct form, appraisal reports submitted using the flexibilities provided must include the documents with the modified language for scope of work, statement of assumptions and limiting conditions, and certifications.
 - In the appraisal report, enter the word "desktop" or "exterior" in the Map Reference field, as applicable
 - The entire text for the modified language, including the word "DESKTOP" or "EXTERIOR", as applicable, must be copied and pasted into the report (not an image.)
 - There may be instances where there is insufficient information about the property for an appraiser to complete an

appraisal assignment with a desktop appraisal (purchase only) or an appraisal with an exterior-only inspection. In these instances the assignment cannot proceed until the appraiser has sufficient information to complete the desktop appraisal (purchase only) or an appraisal with an exterior-only inspection, or an appraisal with an interior and exterior inspection is obtained.

- No assumptions allowed on property condition. As Fannie Mae has begun to examine appraisals completed using the temporary appraisal flexibilities in Lender Letter LL-2020-04, one issue they've observed is that some appraisals rely on assumptions about the subject property condition. Whether completing an exterior-only or a desktop appraisal, the appraiser must have a data source for all the relevant characteristics including interior condition. Obtaining that information, whether it be from homeowners or other sources, is not only encouraged but is required. This is addressed in the FAQs regarding the temporary flexibilities (Q47):
 - As stated in Lender Letter LL-2020-04, the appraiser's certification #10 was removed recognizing that the appraiser may have to rely on information from an interested party to the transaction (borrower, real estate agent, property contact, etc.) and additional verification may not be possible. The removal of this certification acknowledges this could affect the assignment's results. If adequate information is not available to complete the appraisal, the assignment cannot be completed.
 - The standard GSE appraisal forms include certification 10 that obligates the appraiser to verify "from a disinterested source, all information in this report that was provided by parties who have a financial interest in the sale or financing of the subject property." Fannie Mae intentionally removed certification 10 from the revised certifications, required for the temporary appraisal flexibilities, in recognition that there may be scenarios where an interested party is the only available source for some subject property data. When using the temporary flexibilities, Fannie Mae encourages appraisers to communicate with homeowners or agents to fill any gaps in the descriptive information needed to perform the appraisal. The appraiser cannot assume that the condition is "average" or "similar to the exterior of the home," for example.

As a reminder, the temporary appraisal flexibilities for conventional conforming have been extended through June 30.

Action to take – Underwriters: Be sure the transaction permits appraisal flexibility if an alternative is provided by the appraiser.

- Except for VA transactions, cash-out refinances require full traditional appraisals.
- For conventional conforming, unless the rate & term refinance is agency to agency, a full traditional appraisal is required. Desktop appraisals are not permitted. If flexibility is allowed, the correct form, map reference, and modified verbiage is required. Appraisers cannot make assumptions about the interior condition.
- VA transactions over certain dollar amounts require a full appraisal.
- USDA does not permit desktop appraisal for any transaction.
- In all cases, there may be instances where there is insufficient information about the property for an appraiser to complete an appraisal assignment with a desktop appraisal or an appraisal with an exterior-only inspection. In these instances, the mortgage will not be eligible until the appraiser has sufficient information to complete the desktop appraisal or an appraisal with an exterior-only inspection, or an appraisal with an interior and exterior inspection is obtained.
- For transactions that are eligible and the appraiser opts to use the flexibility, the map reference and the Scope of Work/Limiting Conditions, must be correct in the appraisal.

Below is a snapshot of basic eligibility but it is not a full guide. These are temporary flexibilities and will expire based on application dates, loan closed dates or other effective date designation applied by the governing body.

Loan Type*		GSEs ** (Fannie/Freddie)	FHA	VA	USDA
Purchase	Principal residence	<ul style="list-style-type: none"> • Ext only permitted • Desktop permitted 	<ul style="list-style-type: none"> • Exterior permitted. • Desktop permitted 	<ul style="list-style-type: none"> • Exterior only when purchase price/loan amount does not exceed 1.5x county limit • Desktop permitted if purchase price/loan amount < county limit ROV lifted/restricted for purchase transactions.	<ul style="list-style-type: none"> • Exterior only is permitted. • Desktop appraisals NOT permitted
	Second Home	Full traditional appraisal required if >85% LTV	N/A	N/A	N/A
	New construction	Desktop w/ certifications	Traditional appraisal required	Interior required if no shelter in place.	Traditional appraisal required
Refinance	Rate and Term or Limited Cash-out	Exterior only permitted when owned by the same GSE (agency-agency). Otherwise, full int/ext required.	<ul style="list-style-type: none"> • Exterior permitted. 	All non-IRRRL refinances: <ul style="list-style-type: none"> • Exterior permitted. • Desktop permitted 	N/A
	Cash-out	No flexibilities for cash-out. Full appraisal required.	No flexibilities for cash-out. Full appraisal required.	ROV suspended until further notice.	

* Renovation loans require full appraisals

** For manufactured homes eligible for an exterior only, the appraiser must completed on the 1004C and in the Map Reference the appraiser will put "Exterior".

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



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