CMG FINANCIAL
Correspondent Lending

TO: Distribution

DATE: June 10, 2020

RE: CMG Financial Correspondent Lending Updates 2020-36

EFFECTIVE: As noted below

CMG FINANCIAL CORRESPONDENT LENDING UPDATES

Topics Covered in this Announcement:

- Expectations & Additional Documentation Due to COVID-19
- New GSE COVID-19 FAQs
- HomeReady Max LTV for Fannie Owned Refinances

EXPECTATIONS & ADDITIONAL DOCUMENTATION DUE TO COVID-19

Summary: CMG must continue to carefully consider stability and continuance of income for all borrowers. Additional documentation will be required by underwriting as needed. Below is a summary of some of the scenarios to set expectations for:

- The GSEs recently issued guidance and requirements for self-employed borrowers, including additional documentation requirements for P&Ls and bank statements. Expect to provide additional documentation for self-employed borrowers.
- Rental Income.
    - Long-term Rental Income: When guidelines permit rental income to be used to qualify, additional documentation is required to evidence current receipts of rental income (generally, two months) to support borrower's cash flow and rental income used to qualify.
    - 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.
- Variable Income. Stability of income and current income levels may be more difficult to establish. Expect underwriting to condition for additional documentation as needed. Required documentation may vary case by case. In all situations, a reduced amount of declining variable income can only be used for qualifying if it has since stabilized and there is no reason to believe the borrower will not continue to be employed at the current level. Higher/previous income levels CANNOT be averaged with current income level.
- Forbearance – Expect to provide additional documentation for borrowers with existing mortgages. 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.
- Age of Documentation: With few exceptions, all income and asset documentation must be dated no more than 60 days prior to the Note Date.
- At closing, CMG will require the borrower(s) to sign an Employment Certification.

Effective date: *n/a, this is a reminder*

Links:

Fannie Mae COVID-19 FAQ
Freddie Mac COVID-19 FAQ

NEW GSE COVID-19 FAQs

Summary: The below are Fannie Mae's NEW FAQ for Temporary Purchase and Refinance Eligibility and reminders of FAQs updated in may for origination and underwriting.

- Q29. For purposes of determining eligibility, is a borrower considered current if they have been making partial payments during forbearance?
    - **Answer:** To be considered current for purposes of the requirements in Lender Letter LL-2020-03, the borrower must have made all mortgage payments due in the month prior to the note date of the new transaction by no later than the last business day of that month, See Selling Guide B3-5.3-03, Previous Mortgage Payment History and Lender Letter LL-2020-03 for additional details on payment histories.

- Q30. Can missed payments during forbearance on an existing mortgage loan be refinanced into the new loan amount?
    - **Answer**: No. Missed payments during a forbearance may not be refinanced into the new loan amount in a limited cash-out or cash-out refinance transaction. However, if a borrower has initiated a repayment plan or accepted a loss mitigation solution (e.g., payment deferral, modification, etc.) and has made three timely payments, the entire existing loan amount, including any remaining outstanding payments under a repayment plan or deferred amounts, may be refinanced into the new loan. See Lender Letter LL-2020-03 for details.
- Q31. If the borrower has entered into a repayment plan to resolve missing payments during a forbearance, must it be completed before they are eligible for a new purchase or refinance transaction?
    - **Answer:** No. If the borrower has entered into a repayment plan to resolve missed payments, the borrower is eligible for a new purchase or refinance transaction after making three timely payments. Alternatively, if the repayment plan is completed in fewer than three payments, then the borrower is eligible upon completion.
- Q32. What eligible sources of funds may be used to reinstate a mortgage loan with missed payments?
    - **Answer:** When a lump sum payment was made to reinstate a mortgage loan on or after the loan application date for the new transaction, the lender must document the source of funds in accordance with eligible sources of funds in the Selling Guide Chapter B3-4 Asset Assessment. Any source of funds eligible for down payment and closing costs may be used for reinstatement, provided the lender documents it in accordance with existing Selling Guide requirements. Note that if the lump sum payment was made prior to the loan application date for the new transaction, no sourcing of funds is required.
- Q33. For loss mitigation solutions other than repayment, deferral or modification, what is meant by "full payments" in accordance with the program?
    - **Answer:** If another type of loss mitigation solution has been agreed to by the servicer and the borrower to resolve the missed payments, three "full payments" must be made in an amount no less than the required payment due under the terms of the note, or any other agreement that permanently alters the payment amount, such as a Loan Modification agreement.
- Q34. What if a borrower completes a non-retention loss mitigation solution such as a Mortgage Release (deedin-lieu of foreclosure) or short sale?
    - **Answer:** In these cases, the borrower must continue to meet the requirements in Selling Guide B3-

5.3-07, Significant Derogatory Credit Events – Waiting Periods and Re-establishing Credit.

- Q35. Does the additional due diligence required to confirm a borrower's mortgage is current apply to all mortgage loans or only mortgage loans in forbearance?
  - **Answer:** The requirement to confirm that mortgage loans are current and do not have unresolved missed payments applies to every loan on which the borrower is obligated.
- Q36. If a borrower's existing mortgage loan is in forbearance, but is current, does the borrower need to exit forbearance to be eligible for a new purchase or refinance transaction?
  - **Answer**: No. If the borrower is current on all mortgage loans, there is no requirement to exit forbearance prior to obtaining a new loan.
- Q37. What responsibility does the lender have if the borrower entered forbearance on an existing mortgage loan after applying for a new loan?
  - **Answer:** The lender must follow the guidance in LL-2020-03 to determine whether the existing mortgage loan is current or if the borrower has entered into and made three full timely payments under a loss mitigation solution as of the note date of the new mortgage loan.
- Q38. When a borrower refinances after a payment deferral, is the new loan considered a cash-out refinance loan or a limited cash-out refinance loan (LCOR)?
  - **Answer:** When a borrower refinances a loan that has a payment deferral and the amount of the deferred payments is included in the new loan, the new loan is eligible to be sold as an LCOR if it otherwise meets all of the requirements for an LCOR in the Selling Guide. Funds applied to pay off the prior loan, including the deferred portion, are not considered cash out.
- Q39. If the borrower has entered a repayment plan or other loss mitigation solution described in Lender Letter LL-2020-03, must the required three timely payments be consecutive?
  - **Answer:** Yes. Regardless of the loss mitigation solution, the borrower must make three consecutive payments to be eligible for the new transaction. If a borrower misses one or more of the three required payments, the loan is not eligible and the borrower should contact their mortgage loan servicer to discuss an appropriate loss mitigation solution.
- Q40. What is a reinstatement of a mortgage loan?
  - **Answer:** A mortgage loan is considered reinstated if the borrower has paid all missed payments and any associated fees or other expenses in a lump sum payment in order to return the mortgage loan to a current status under the terms of the original note.
- Q41. Can I still rely on an Approve/Eligible recommendation in DU?
  - **Answer**: Yes. However, the lender must comply with the additional due diligence requirements outlined in Lender Letter LL-2020-03 to determine if all mortgage loans are current and that any missed payments have been resolved. These additional eligibility requirements are currently not automated in DU and must be manually applied.
- Q42. If the borrower is on a repayment plan on another mortgage loan, does the higher payment amount need to be used in qualifying?
  - **Answer:** Yes. If the borrower is on a repayment plan temporarily requiring higher payments to repay missed amounts, the PITIA under the terms of the repayment plan must be used in qualifying. The lender must ensure that the requirements in LL-2020-03 are met and that the borrower has made 3 payments under the repayment plan agreement to be eligible for a new purchase or refinance transaction.
- Q44. Is forbearance considered an "other loss mitigation solution" not specifically listed in the table in Lender Letter LL-2020-03?
  - **Answer**: No. If a borrower is obligated on a mortgage loan that is in forbearance but is current and does not have missed payments, the new mortgage loan is eligible for sale to Fannie Mae. If the borrower is obligated on a mortgage loan that is in forbearance and the mortgage loan is not current, the new mortgage loan is not eligible unless the missed payments on the existing mortgage loan are resolved by meeting the applicable additional eligibility requirements in LL-2020-03.

Reminder of previously released FAQ for origination/underwriting (from Freddie Mac's FAQ):

Q3: The Borrower works for a company that has publicly stated employees will continue to be paid through a certain date (e.g., 3 weeks out); however, the employers physical place of business is temporarily closed. Is it acceptable to use the income to qualify the borrower?
No, the Guide requirements for Income Continuance are not met. As of this writing, the economic effect of COVID-19 to the ability of certain employers to re-open are unknown. This impacts a reasonable expectation of income continuance, regardless of the planned temporary closure status.

Q4: If a recent YTD paystub and/or asset account statement is obtained in lieu of the 10-day pre-closing verification (PCV), as provided in Bulletin 2020-5, and the documentation evidences reduced hours and/or pay due to the pandemic, what are the next steps?

With respect to any information indicating reduced hours or pay, sellers must comply with the requirements and guidance in Guide Topic 5300 related to income stability and calculation. For example, if the income is fluctuating hourly income and it is declining, the income can be used for qualifying only if it stabilized, and the Seller must not include the previous higher levels of income in the calculation (see Guide Section 5303.4(b)).

Q5: The 10-day PCV verifies the borrower's employment status as employed; however, I have other information that indicates the Borrower may be furloughed or laid off. Is it acceptable to use the 10-day PCV as confirmation of the Borrower's employment status?
No, the Seller's knowledge that the Borrower may be furloughed or laid off contradicts a reasonable expectation of continuance and probability of consistent receipt of income. In this scenario the Seller must resolve the discrepancy, which may require updated income documentation, before proceeding with using the income for qualifying. It is also recommended that, if possible, the Seller ask the employer during employment verification whether the borrower's employment status or income level has changed within the last 60 days, as it is possible that a 10-day PCV employment
status may still indicate "employed" after the borrower is furloughed or laid off.

Links:
https://singlefamily.fanniemae.com/media/22326/display
https://sf.freddiemac.com/faqs/covid-19-selling-faqs

HOMEREADY MAX LTV FOR FANNIE OWNED REFINANCES

Summary: CMG's HomeReady matrices will be updated to reflect that Fannie Mae does permit limited cash-out refinances up to 97% LTV when the loan being refinanced is a Fannie-owned loan. All other requirements for LTV 95-97% also apply.

Existing loan - For limited cash-out refinances:
The lender must document that the existing loan being refinanced is owned (or securitized) by Fannie Mae. Documentation may come from

- the lender's servicing system,
- the current servicer
- Fannie Mae's Loan Lookup tool, or
- any other source as confirmed by the lender.

The lender must inform DU that Fannie Mae owns the existing mortgage using the Owner of Existing Mortgage field in the online loan application before submitting the loan to DU.

Effective Date: *Immediately*

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