
TO: Distribution

DATE: July 01, 2020

**RE: CMG Financial Correspondent Lending
Updates 2020-39**

EFFECTIVE: As noted below

CMG FINANCIAL CORRESPONDENT LENDING UPDATES

Topics Covered in this Announcement:

- VA Publishes Circular Addressing Borrowers in Forebearance

VA PUBLISHES CIRCULAR ADDRESSING BORROWERS IN FOREBEARANCE

Summary: VA has published Circular 26-20-25 permitting veterans who were affected by COVID-19 to obtain a new VA purchase or refinance loan. Due to the economic hardships caused by COVID-19, caused by COVID-19, VA is temporarily waiving certain regulatory and policy requirements in an effort to help Veterans and the private sector close essential housing loans. Please see below for VA's direction on purchase, cash-out, and IRRRL transactions. Please note that for IRRRLS periods of forbearance cannot count toward seasoning. For example, in a case where a borrower made five consecutive payments before invoking a CARES Act forbearance, such borrower would need to make six additional consecutive payments, post forbearance, in order to meet the seasoning requirement.

VA-guaranteed Purchase and Cash-out Refinance Loans: While lenders must continue to follow VA's underwriting standards generally, lenders should not use a CARES Act forbearance as a reason to deny a Veteran a VA-guaranteed loan.

- In such cases, borrowers, through the lender, must provide reasons for the loan deficiency and information to establish that the cause of the delinquency has been corrected.
- VA will not consider a Veteran as an unsatisfactory credit risk, based solely upon the fact that the Veteran received some type of credit forbearance or experienced some type of deferred payment during the COVID-19 national emergency.
- VA reminds lenders instead to continue to review and evaluate all applicable credit qualifying information, e.g., residual income, debt-to-income ratios, credit, and assets.
- Although deferred payments may not be considered for credit risk purposes, the lender should consider the monthly obligation if the debt remains active after closing the new loan.

Notes:

- For purchases and cash-out refinance transactions, a specific waiting period is not required but it must be established that the cause of the delinquency has been corrected.

- Cash-out refinance seasoning requirement: Payments skipped during a forbearance/deferment period do NOT count toward the seasoning requirement that the note date must be after the date on which 6 full monthly payments have been made on the mortgage being refinanced.

IRRRLs: Normally, VA's regulation found at 38 C.F.R. § 36.4307(a)(5) requires lenders to obtain prior approval from VA if the loan being refinanced is delinquent, i.e., the scheduled monthly payment of principal and interest is more than 30 days past due. Under this Circular, VA is temporarily waiving certain prior approval requirements applicable to delinquent loans.

COVID-19 related skipped payments / more than 30 days past due

Under this Circular, VA's prior approval is not required, regardless of delinquency status, if—

- (1) VA has already approved the lender to close loans on an automatic basis,
- (2) The borrower has invoked a CARES Act forbearance relating to the loan being refinanced,
- (3) The borrower has provided information to establish that the borrower is no longer experiencing a financial hardship caused by COVID-19, and
- (4) The borrower qualifies for the IRRRL under the standard IRRRL credit standards

IRRRLs Where the Loan Being Refinanced Is Not More Than 30 Days Past Due.

As explained above, VA's regulations require prior approval and underwriting for an IRRRL only when the loan being refinanced is more than 30 days past due. If the loan being refinanced is not more than 30 days past due, VA's approval is not required in advance of the loan, nor is underwriting required. Thus, VA's prior approval and lender underwriting are not required in cases where the loan being refinanced is overdue by 30 days or less, regardless of whether the Veteran requested a CARES Act forbearance and the delinquency status at the time of such request.

Maximum Loan Amount. In general, lenders should continue to follow VA's regulation found at 38 C.F.R. § 36.4307, to determine the maximum loan amount of an IRRRL. In the context of a CARES Act forbearance, this means that IRRRLs may include the following:

- (1) Any past due installment payments, including those a borrower deferred under a CARES Act forbearance, plus
- (2) Allowable late charges, consistent with the note, the CARES Act, and all other applicable laws, plus
- (3) the cost of any energy efficiency improvements, plus
- (4) Allowable closing costs and discount points, and
- (5) the VA funding fee.

Note: Recording fees are an allowable closing cost and can be included in the maximum loan amount calculation.

IRRRL – Seasoning, Fee Recoupment, Discount Points and Net Tangible Benefit Standards

Lenders are reminded that all IRRRLs must meet loan seasoning, fee recoupment, discount points and net tangible benefit requirements, as prescribed by 38 U.S.C. § 3709 and VA policy guidance. **Periods of forbearance cannot count toward seasoning**; however, forbearance under the CARES Act does not, alone, cause the loan to fail to meet the seasoning standard. If a loan being refinanced met seasoning requirements before a Veteran invoked a CARES Act forbearance, the seasoning requirement remains satisfied. A loan being refinanced is seasoned if both of the following conditions are met as of the date the borrower closes the refinance loan:

- (1) The borrower has made at least six consecutive monthly payments on the loan being refinanced. For example, in a case where a borrower made five consecutive payments before invoking a CARES Act forbearance, such borrower would need to make **six additional consecutive payments, post forbearance**, in order to meet the seasoning requirement.
- (2) The date of closing for the refinance loan is 210 or more days after the first payment due date of the loan being refinanced.

IRRRL Valuation Requirements

Generally, an appraisal is not required for an IRRRL. VA only requires an appraisal in certain circumstances to meet NTB requirements. The guidance issued under VA Circular 26-20-13 applies to VA IRRRLs. If an appraisal is needed for an IRRRL, lenders should use their appraisal management and assignment process to complete a property value determination versus ordering a VA appraisal.

Note: VA has recently observed some lenders ordering VA Cash-Out Loan Identification Numbers (LINs) to request a VA fee panel appraisal and later contact the Regional Loan Center (RLC) to convert that LIN into an IRRRL LIN. VA acknowledges that borrowers' needs may change prior to closing which may require a change in loan type, however, lenders should not be using this method to secure VA appraisals for IRRRLs.

Effective Date: *This Circular is effective immediately and applied to any loan closed on or the day after this Circular is signed. The policies outlined in this Circular will remain in place until further notice or the Circular is rescinded.*

Links to VA COVID-19 Related Circular:

- [VA Circular 26-20-25](#) (new circular)
- [VA Circular 26-20-10](#), Lender Guidance for Borrowers Affected by COVID-19, [Change 1](#)
- [VA Circular 26-20-19](#), Additional Lender Guidance Concerning COVID-19
- [VA Circular 26-20-13](#), Valuation Practices during COVID-19

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