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**TO: Distribution**

**DATE: July 02, 2020**

**RE: CMG Financial Correspondent Lending  
Updates 2020-40**

**EFFECTIVE: As noted below**

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## **CMG FINANCIAL CORRESPONDENT LENDING UPDATES**

### **Topics Covered in this Announcement:**

- GSEs (Fannie & Freddie) Address COVID-19 & Variable Income

### **GSES (FANNIE & FREDDIE) ADDRESS COVID-19 & VARIABLE INCOME**

**Summary:** Fannie Mae and Freddie Mac have posted updated and new FAQs for self-employed and variable income as it relates to COVID-19. Please see below for important requirements for variable income / fluctuating employment earnings (fluctuating hourly income, commission, bonus, overtime and tip income). These FAQs do NOT apply to salaried borrowers.

#### **When variable income is used to qualify the borrower(s), can a gap of employment (due to COVID-19) be excluded from the method of calculation?**

A gap in employment or a reduction in income due to COVID-19 cannot be excluded from the calculation, and the year to date income must continue to be calculated over the entire time period. For Fannie Mae, refer to [B3-3.1-01, General Income Information](#).

When fluctuating income is used to qualify the borrower, is it acceptable to exclude the period(s) of unpaid time due to COVID-19 (e.g., temporary layoff, furlough, reduced hours) when calculating the qualifying income?

- No. For fluctuating employment earnings (e.g., fluctuating hourly employment earnings, overtime, bonus, commission, tips), and regardless of the earnings trend, all 2020 YTD income must be included in the calculation, in accordance with the requirements in the selling guide. As the pandemic is ongoing, the income interruption/gap is not yet considered a onetime occurrence, such as an isolated injury may be; therefore, the period of income interruption must be considered in the overall YTD calculation.

#### **How do lenders determine stability of variable income when a borrower has been impacted by COVID-19?**

- Income types such as hourly, commission and overtime, are variable by nature. Current Selling Guide policy requires these income types to be calculated considering the borrower's history of receipt, the frequency of payment, and the trending of the amount of income being received. Lenders should also include any information or knowledge of any current issues in their analysis of the borrower's continuance of income source. If the trending analysis indicates that the current year to date income has declined, but the borrower is actively employed and the lender has no reason to believe that the borrower will not continue to be

employed at the current level, the income can be considered stable. For Fannie Mae, refer to [B3-3.1-01, General Income Information](#).

**Is it acceptable to only use year-to-date income to calculate qualifying variable income?**

- When variable income is the source of income used in qualifying the borrower(s), lenders must follow the requirements as outlined in [B3-3.1-01, General Income Information](#) (Fannie Mae) and perform a trending analysis. This includes determining the monthly year-to-date income amount and comparing that to prior years' earnings to determine the appropriate amount of qualifying income for the loan transaction.
  - If the trend in the amount of income is stable or increasing, the income amount should be averaged.
  - If the trend was declining but has since 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 must be used (i.e., the monthly year to date income amount).
  - If the trend is declining, the income may not be stable. Additional analysis must be conducted to determine if any variable income should be used.

**When the borrower experiences a gap of employment due to COVID-19 and their source of income is variable, is there a minimum amount of documented time the borrower is required to be back at work after the gap period?**

- Unless the lender has knowledge to the contrary, if the borrower is actively employed, the income does not have a defined expiration date and the applicable history of receipt of the income is documented (per the specific income type), the lender may conclude that the income is stable, predictable, and likely to continue. The lender is not expected to request additional documentation from the borrower. For Fannie Mae, refer to [B3-3.1-01, General Income Information](#) for additional details.

**What if an hourly borrower is working less hours now than they worked earlier in the year prior to the COVID-19 impact?**

- Hourly workers are covered under our variable income policy. The year-to-date income amount being used will account for a decline in income when determining the amount of income to be used for the trending analysis and when determining the amount to be used for qualifying purposes.

**FAQ Links:** [Fannie Mae Updated FAQs](#), [Freddie Mac Updated FAQs](#)

**Selling Guide References for Variable / Fluctuating Income:**

- **Freddie Mac:** Fluctuating employment income (fluctuating hourly income, commission, bonus, overtime and tip income) during the pandemic based on the requirements of Guide Sections [5303.2\(b\)](#), [5303.3](#) and [5303.4](#).
- **Fannie Mae:** [B3-3.1-01, General Income Information](#)

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