CMG FINANCIAL
Correspondent Lending

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BULLETIN # 2018-22

TO: Distribution

DATE: July 5, 2018

RE: CMG Financial Correspondent Lending Updates

EFFECTIVE: As noted below

CMG FINANCIAL CORRESPONDENT LENDING UPDATES

Topics Covered in this Announcement:

- Compliance: Seller's Costs and Credit on CD
- Reminder: GNMA Seasoning Requirements for Cash Out Refinances
- Disaster Reminder & Fannie Mae PIW Update
- Freddie Mac Updates: Guide Bulletin 2018-10

SELLER'S COSTS AND CREDIT ON CD

Q: Are the Seller's own fees required to be disclosed on the buyer's LE and CD?
A: Yes. The Seller's fees are considered part of the overall transaction and thus required to be disclosed on the Buyer's LE and CD. When disclosed on the Buyer's LE/CD, these costs would be in Section H since they are not required by the lender nor required to be disclosed elsewhere on the LE/CD.

Q: Is the Seller Credit on the Buyer's CD required to match the Seller's CD?
A: Yes, the total Seller Credit on the Buyer's CD must match the total Seller Credit on the Seller's CD prepared by the settlement agent. When there are specific Seller Credits, be sure to add those to any lump sum Seller Credit amount to obtain the total.

Example: The Buyer's CD has a seller paid Settlement Fee for $500 in Section C (so it's showing in the Seller Paid/At Closing column) and a general Seller Credit in Calculating Cash to Close table for $1000 – so the total seller credit is $1500. The Seller's CD must have a total Seller Credit of $1500 on page 1 *OR* if the Seller was required to pay the Buyer's Settlement Fee, then the Seller's CD would show Buyer's Settlement Fee on page 2 for $500 and the remaining $1000 Seller Credit on page 1.

REMINDER: GNMA SEASONING REQUIREMENTS FOR CASH OUT REFINANCES

Summary: As a reminder, the GNMA seasoning requirements must be met for all VA Regular Refinance transactions and all FHA cash out refinances; not just VA to VA refinances or FHA to FHA refinances. If the lien to be paid off is not guaranteed by the VA or insured by FHA the seasoning requirement still applies.

The note date of the refinance loan must be on or after the later of:

- the date that is 210 days after the date on which the first monthly payment was made on the mortgage being refinanced, and
- the date on which 6 full monthly payments have been made on the mortgage being refinanced.

Effective Date: *n/a, reminder*

Links: VA Circular 26-18-13, GNMA APM 18-04

DISASTER REMINDER & FANNIE MAE PIW UPDATE

Summary: Due to volcanic activity, Fannie Mae has added three ZIP Codes on the Island of Hawaii to the Property Inspection Waiver (PIW) disaster exclusion list in Desktop Underwriter® (DU®). Effective June 23, properties in 96718, 96778, and 96785 are ineligible to receive PIW offers, until at least 120 days after the disaster ends. After that, DU will issue (and lenders may exercise) PIW offers related to properties in those ZIP codes if the property was appraised after the disaster.

Although the Federal Emergency Management Agency (FEMA) has declared individual assistance for all of Hawaii County (which is also the Island of Hawaii), Fannie Mae is excluding only three ZIP Codes from consideration for PIW offers. Lenders may exercise PIW offers for the rest of Hawaii County outside of these ZIP Codes, subject to eligibility guidelines.

As a reminder, loans secured by properties located in Hawaii lava zones 1 and 2 remain ineligible for delivery to Fannie Mae.

In addition, since the incident period has not ended (and HUD has not issued a waiver), FHA closings and insurance in this county cannot occur as of June 14th.

Hawaii Kilauea Volcanic Eruption And Earthquakes (DR-4366):

Incident Period: May 03, 2018 **NO END Date**
Major Disaster Declaration declared on May 11, 2018

Links:
https://www.fema.gov/disaster/4366
https://www.fema.gov/disaster/notices/amendment-no-1-50

Individual Assistance: Hawaii County as of June 14th, 2018.

Note: On the FEMA site, disasters are referenced with both an incident start date and an incident ending date. The property is considered potentially impacted for 120 days from the incident END date to the date of the property inspection or valuation date; For FHA loans, once a PDMDA is declared, there must be an Incident Period end date before getting the inspections for all properties pending closing and insurance.

Links: CMG Diasater Area Policy, Fannie Mae's PIW Page, Fannie Mae's PIW FAQ

FREDDIE MAC UPDATES: GUIDE BULLETIN 2018-10

Summary: Freddie Mac has announced a number changes that are effective immediately unless otherwise noted. See below for highlights and refer to the full Freddie Mac Bulletin for complete details.

Property eligibility and appraisal requirements

- Eligibility of Condominium Units for automated collateral evaluation – July 16, 2018 (New)
- Updates to comparable sales selection requirements

Condominium Projects

- Revisions to our requirements for Detached Condominium Projects – June 28, 2018
- Freddie Mac-owned "no cash-out" refinance Condominium Unit Mortgages
- Updates to our requirements for New Condominium Projects
- Revisions to our general Condominium Project eligibility requirements

Note: Primary impact is to 2-4 unit projects.

Maximum number of financed properties

- Increase in the maximum number of financed properties that a Borrower may be obligated on when the subject property is a second home or an Investment Property, provided that additional requirements are met – August 20, 2018

Effective Date: *Immediately unless otherwise noted.*

Link to Freddie Mac Bulletin: http://www.freddiemac.com/singlefamily/guide/bulletins/pdf/bll1810.pdf

PROPERTY ELIGIBILITY AND APPRAISAL REQUIREMENTS

AUTOMATED COLLATERAL EVALUATION (ACE).
Effective for new submissions and resubmissions to Loan Product Advisor® on and after July 16, 2018:

- Mortgages secured by Condominium Units that qualify for ACE may receive relief from representation and warranties related to the property's value, condition and marketability.
- Clarifying that to qualify for an ACE appraisal waiver, the Mortgage must receive a Loan Product Advisor® Risk Classification of Accept.

COMPARABLE SALES SELECTION
Freddie Mac is updating comparable sales selection requirements for properties located in new subdivisions, units in new Planned Unit Developments (PUDs) or units in recently converted or New Condominium Projects to provide flexibility when the new subdivision or project has no contract sales.

- The appraiser may now develop an appraisal report with all comparable sales from outside the new subdivision or project. However, the appraiser must comment on the marketability of the new development or project and justify and support the use of the comparable sales from outside the new subdivision or project.
- Freddie Mac is also clarifying that the appraiser may use comparable sales that are older than 12 months as long as the appraiser can justify and support

such use in the appraisal report.

CONDOMINIUM PROJECTS

DETACHED CONDOMINIUM PROJECTS
Effective Date: *June 28, 2018*

Expansion of Detached Condominium Projects review type
Freddie Mac is expanding the availability of the Detached Condominium Projects review type to Condominium Unit Mortgages secured by Detached Condominium Units in a project with a mix of attached, detached and/or semi-detached units. Lenders may use the Detached Condominium Projects review type for projects that are comprised solely of detached units and now may also use this project review type for Mortgages secured by Detached Condominium Units in projects with a mix of attached, detached and/or semi-detached units.

In connection with this change, Freddie Mac is updating the Glossary to add a definition for “Detached Condominium Unit” and revising the definitions of “2- to 4-Unit Condominium Project” and “Detached Condominium Project.”

Project insurance
Lenders are not required to determine the existence or adequacy of the project liability insurance and/or the fidelity or employee dishonesty insurance as required in Sections 8202.5 and 8202.6.for a DetachedCondominium Unit reviewed under the Detached Condominium Projects review type.

2- to 4-Unit Condominium Projects
As announced in Bulletin 2018-5, effective June 28, 2018, Freddie Mac is eliminating the 2- to 4-Unit Condominium Projects review type and providing Lenders the flexibility to choose from the following review types for a Mortgage secured by a Condominium Unit in a 2- to 4-Unit Condominium Project:

- Streamlined reviews
- Established Condominium Projects
- New Condominium Projects, or
- Reciprocal project reviews

Due to the expanded availability of the Detached Condominium Projects review type, effective June 28, 2018, a Detached Condominium Unit in a 2- to 4-Unit Condominium Project will be eligible for review under the Detached Condominium Projects review type.

FREDDIE MAC-OWNED “NO CASH-OUT” REFINANCE CONDOMINIUM UNIT MORTGAGES

Freddie Mac will no longer require the transfer of any existing credit enhancement on the mortgage being refinanced to the refinance Mortgage

To identify if Freddie Mac owns the Mortgage, the Borrower can look up the loan in Freddie Mac’s Loan Look-Up Tool or authorize the lender to obtain this information on the Borrower’s behalf.

NEW CONDOMINIUM PROJECTS

Conversions

- Previously, Lenders were required to review an engineer’s report to determine project eligibility for a Condominium Project that was created by a conversion involving a Non-Gut Rehabilitation of a prioruse of a building that was legally created within the past five years.

- Freddie Mac is updating the Guide to allow Lenders to review documentation that is functionally equivalent to an engineer's report (instead of an engineer's report), provided that certain conditions are met.

Limitations on ability to sell and right of first refusal

- Freddie Mac is eliminating the requirement relating to how the right of first refusal could be exercised when the project documents allow the homeowners association (HOA) to retain that right.

Project budget and working capital fund

Previously, if a Condominium Project's budget did not provide a replacement reserve of at least 10% of the budget for capital expenditures and deferred maintenance, a lender could rely on a reserve study as long as the requirements in Section 5701.6(l) were met.

- To provide an additional option, Freddie Mac is adding that the lender may rely on a working capital fund as long as the requirements in Section 5701.6 (m) are met. This is in consideration that not all budgets will meet the minimum reserve allocation requirement and not all projects will have a reserve study.
- Freddie Mac is also clarifying that when a project is recentlyconverted, the required working capital fund can be funded through contributions made by the developer and/or purchasers of the Condominium Units.

Guide update: Freddie Mac is updating Section 5701.6 to reflect these changes to the New Condominium Project requirements.

ELIGIBILITY OF CONDOMINIUM PROJECTS

Freddie Mac is updating the following requirements related to the eligibility and ineligibility of Condominium Projects.

Commercial space

- Previously, a project was considered ineligible if more than 25% of the total above and below grade square footage of the project or building in which the project is located was used as commercial or non-residential space.
- Considering the growing number of Condominium Projects with commercial or non-residential space that exceeds 25%, a project (or building in which the project is located) will be considered ineligible only if it includes more than 35% of the total above and below grade square footage as commercial or non-residential space.

Litigation

- Previously, when the litigation amount was unknown, the attorney letter was required to include the upper and lower limits of any potential monetary judgment against the HOA.
- When the litigation amount is unknown, Freddie Mac is revising the information that must be included in the attorney letter relating to any potential monetary judgement against or settlement with the HOA, including punitive damages. The attorney letter must indicate that the potential monetary judgement or settlement, including punitive damages, will likely be covered by the HOA's insurance policy, rather than the upper and lower limits as previously required.
- Additionally, Freddie Mac is updating the Guide to specify that a project is eligible if the lender determines that the reason for the pending litigation is that the HOA is the plaintiff in a foreclosure action or action for past due HOA assessments.

Single investor concentration

- Previously, for projects with 21 or more units, a Housing Finance Agency (HFA) (or similar entity based on State or local law or regulation) could own no more than 15% of the total number of units ina project without the ownership being considered as excessive single investor concentration.
- Freddie Mac is increasing this maximum single investor concentration requirement to 25% and also allowing this maximum 25% single-investor concentration to be applicable to developer leased units used for low- or moderate income rental purposes (in accordance with State or local law or regulation). The same requirements that apply to the HFA-owned units apply to the developer leased units.

MAXIMUM NUMBER OF FINANCED PROPERTIES

Effective August 20, 2018. For second home and Investment Property Mortgages, Freddie Mac currently limits the number of 1- to 4-unit financed properties that a Borrower individually is, and all Borrowers collectively are, obligated on to six (including the subject property and the Borrower's Primary Residence).

Freddie Mac is increasing the maximum number of financed properties permitted to 10 provided that, when the number of financed properties is greater than six:

- The Mortgage must:
  - Be a Loan Product Advisor Mortgage with a Risk Class of Accept
  - Have a minimum Indicator Score of 720
- The lender must verify reserves of eight months of the monthly payment (as described in Section 5501.2(a)) on each additional second home and/or 1- to 4-unit Investment Property that is financed and on which the Borrower is obligated.

Loan Product Advisor will be updated by August 20, 2018 to reflect this change.

Please contact your Correspondent National Sales Manager

or your Correspondent Liaison with any questions.