CMG FINANCIAL
Correspondent Lending

BULLETIN #2016-29

TO: Distribution **EFFECTIVE: As noted below**

RE: CMG Financial Correspondent Lending Updates

CMG FINANCIAL CORRESPONDENT LENDING UPDATES

Topics Covered in this Announcement:

- FHA Taxes Owed
- Fannie Mae Updates
- Freddie Mac Home Possible Updates
- VA Circular –Credit Report Invoices
- Disaster List Updates –West Virginia

FHA TAXES OWED

Summary: Generally, if the files contains proof the borrower received an income tax return refund for the most recent tax year, then the files contains sufficient documentation to document that the previous years' taxes are paid.

From IRS.gov website:
Question: Can I receive a tax refund if I am currently making payments under an installment agreement or payment plan for a prior year's federal taxes?

Answer:
Generally, no. A condition of your installment agreement is that the IRS will automatically apply any refund due to you against taxes you owe. If your refund exceeds your total balance due on all outstanding liabilities including accruals, you will receive a refund of the amount over and above what you owe.

- Because your refund is not applied toward your regular monthly payment, you must continue making your installment agreement payments as scheduled and in full until your liability including accruing penalty and interest is paid in full.
- Regardless whether you are participating in an installment agreement or other payment arrangement with the IRS, you may not get all of your refund if you owe certain past-due amounts,such as federal tax, state tax, a student loan, or child support.

Action to Take: If documentation in file supports that borrower received a refund for a more recent year (and it was not applied to taxes owed) we do not need to obtain additional proof that previous year's taxes owed were paid.

Effective Date: Immediately

FANNIE MAE UPDATES

Summary: These updates are based on Fannie Mae Selling Guide Announcement 2016-05. Effective dates are as noted in each section below and topics covered include:

- HomeReady Income Limits
- Business Income
- Restructured Loan Policy

- Project Insurance Update – Mortgagee Clause Update

Link to full announcement: https://www.fanniemae.com/content/announcement/sel1605.pdf

HOMEREADY INCOME LIMITS
Fannie Mae is simplifying the way that income limits are applied by establishing a single **area median income** (AMI) limit of 100% (previously the limit was 80% or 100% depending on the property location). They are maintaining the exception for properties located in low-income census tracts where no limit applies.

New Requirement: To be eligible as a HomeReady mortgage, the total annual qualifying income may not exceed 100% of the AMI for the property's location. However, there is no income limit for properties located in low-income census tracts, defined as those census tracts where the median tract income is no greater than 80%AMI.

Reminders:

- For determining Fannie Mae loan eligibility, lenders must refer to the AMIs that Fannie Mae uses in Desktop Underwriter or on Fannie Mae's website, and may not rely on other published versions (such as AMIs posted on huduser.org).
- In determining whether a mortgage is eligible under the borrower income limits, the lender must count the income from all of the borrowers who will sign the mortgage note, to the extent that the income is considered in evaluating creditworthiness for the mortgage loan.

Effective Date: This policy will be implemented in DU the weekend of July 16, 2016, and will apply to all DU Version 9.3 loan casefiles submitted (or resubmitted) on or after that date. Also note that the 2016 AMIs will be published at the same time.

Links: B5-6-02, HomeReady Mortgage Loan and Borrower (Borrower Income Limits and Calculations)

https://www.fanniemae.com/singlefamily/homeready

BUSINESS INCOME
Since the Fannie Mae self-employed income policy updates were announced last year, lenders have provided feedback to Fannie Mae regarding the difficulty in obtaining documentation to evidence a borrower's ongoing access to business income, and asked for additional guidance on how to determine whether the business has adequate liquidity to support the withdrawal of business earnings.

With this update, Fannie Mae is:

- eliminating the requirement for the lender to confirm the borrower can document access to income, such as a partnership agreement or corporate resolution; and
- providing guidance (see below) regarding methods a lender may use when determining adequate business liquidity when that liquidity assessment is required.

New Liquidity Guidance: The lender may use discretion in selecting the method to confirm that the business has adequate liquidity to support the withdrawal of earnings. When business tax returns are provided, for example, the lender may calculate a ratio using a generally accepted formula that measures business liquidity by deriving the proportion of current assets available to meet current liabilities.

It is important that the lender select a business liquidity formula based on how the business operates. For example:

- The Quick Ratio (also known as the Acid Test Ratio) is appropriate for businesses that rely heavily on inventory to generate income. This test excludes inventory from current assets in calculating the proportion of current assets available to meet current liabilities.

Quick Ratio = (current assets — inventory) ÷ current liabilities

- The Current Ratio (also known as the Working Capital Ratio) may be more appropriate for businesses not relying on inventory to generate income.

Current Ratio = current assets ÷ current liabilities

For either ratio, **a result of one or greater is generally sufficient** to confirm adequate business liquidity tosupport the withdrawal of earnings.

Note: CMG continues to require the verbal verification of employment for a self-employed borrower to be obtained within 30 days prior to the note date and will not be extending this to the 120 days.

Effective Date: New update may be implemented immediately, but must be implemented for applications dated on and after October 1, 2016.

Links: (Fannie Mae has updated verbiage in a number of selling guide topics):

- Other Sources of Income (Schedule K-1 Income) B3-3.1-09
- Underwriting Factors and Documentation for a Self-Employed Borrower B3-3.2-01
- Income or Loss Reported on IRS Form 1065 or IRS Form 1120S, Schedule K-1 B3-3.2.1-08
- Analyzing Partnership Returns for a Partnership or LLC B3-3.2.2-01
- Analyzing Returns for an S Corporation(Borrower's Proportionate Share of Income or Loss B3-3.2.2-02

RESTRUCTURED LOAN POLICY
In September 2008, Fannie Mae introduced the restructured mortgage loan policy in response to the uncertainty surrounding the performance of mortgage loans restructured as a result of the financial crisis. The policy was later updated to permit the subsequent refinance of a restructured mortgage (subject to certain conditions) after programs, such as the Hardest Hit Fund, were established to provide relief to underwater borrowers in the way of principal forgiveness.

- In an effort to simply eligibility guidelines and support the housing market, Fannie Mae is eliminating their policy on restructured mortgages.
- With respect to restructured mortgages, lenders can now rely upon existing policy when determining whether the loan is eligible for delivery under a refinance transaction or as a modified mortgage loan.

Note: Previously Fannie Mae required that the borrower(s) made a minimum of 24 consecutive months of timely mortgage payments on the restructured loan before closing on the refinance mortgage loan.

Effective Date: This policy update is effective immediately.

PROJECT INSURANCE – MORTGAGEE CLAUSE UPDATE
Currently the Fannie Mae Selling Guide requires that project level property insurance policies include the standard mortgagee clause. In response to lender feedback, Fannie Mae is removing the requirement that a unit owner's lender or Fannie Mae be named in the mortgagee clause on a project's master policy.

Effective Date: This policy update is effective immediately.

VA AND CREDIT REPORT INVOICE

Summary: VA has released Circular 26-14-36, Change 1. This Circular clarifies credit report invoice requirements.

When the credit report has the amount charged for the service on the actual credit report document, this will be accepted as an invoice for the credit report charge. In this instance, the lender does not need to provide an invoice. The lender must provide an invoice and/or additional credit report documentation for any additional credit report charges that appear on the Closing Disclosure.

Link to Circular: http://www.benefits.va.gov/HOMELOANS/documents/circulars/26_14_36_Change1.pdf

Effective Date: Immediately

DISASTER LIST UPDATES

Summary: FEMA has added additional counties to the individual assistance list for West Virginia. The following counties now apply to the CMG Disaster Policy and have been added to the CMG Disaster List:

West Virginia		
Clay County	Fayette County	Monroe County
Pocahontas County	Roane County	Summers County
Webster County		

Note: The designation of an area as a "disaster area" for the purpose of CMG's Disaster Policy is made by CMG Corporate Credit and can be based on a federally or state declared disaster area (FEMA or state/federal agency), or through knowledge of a disaster as a result of news and media or personal contacts.

Links:
☐ FEMA Disasters: www.fema.gov/disasters
☐ West Virginia Declaration: https://www.fema.gov/disaster/4273

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

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