CMG FINANCIAL
Correspondent Lending

TO: Distribution | **DATE: July 08, 2020**

RE: CMG Financial Correspondent Lending Updates 2020-42 | **EFFECTIVE: As noted below**

CMG FINANCIAL CORRESPONDENT LENDING UPDATES

Topics Covered in this Announcement:

- FHA Extends Temporary COVID-19 Requirements
- USDA Extension of Temporary Exceptions in Relation to COVID-19 Pandemic and Updated FAQs
- Reminder: GSEs Address COVID-19 & Variable Income
- Reminder: VA Published Guidance for Borrowers in Forbearance

FHA EXTENDS TEMPORARY COVID-19 REQUIREMENTS

Summary: FHA announced a re-extension of the effective date of Mortgagee Letter 2020-05, published on March 27, 2020. This second extension will allow industry partners additional opportunity to utilize flexible guidance related to re-verification of employment and appraisal protocol for FHA Single Family Programs affected by COVID-19.

Effective Date: *The re-extension of Appraisal guidance in Mortgagee Letter 2020-05 is effective immediately for appraisal inspections completed on or before August 31, 2020. The extension of re-verification of employment guidance in Mortgagee Letter 2020-05 is effective immediately for cases closed on or before August 31, 2020.*

Links: FHA Mortgagee Letter 2020-20

USDA EXTENSION OF TEMPORARY EXCEPTIONS IN RELATION TO COVID-19 PANDEMIC AND UPDATED FAQs

Summary: The temporary exceptions issued on March 27, 2020 pertaining to appraisals, repair inspections and income verification for the Single Family Housing Guaranteed Loan Program (SFHGLP) due to the COVID-19 pandemic have been extended until August 31, 2020 and apply to the requirements in the program handbook HB-1-3555 for new loans, described below.

Residential Appraisal Reports – Existing Dwelling (no change, just extended)
For purchase and non-streamlined refinance transactions, when an appraiser is unable to complete an interior inspection of an existing dwelling due to concerns associated with the COVID-19 pandemic, an “Exterior-Only Inspection Residential Appraisal Report”, (FHLMC 2055/FNMA 2055) will be accepted. In such cases, appraisers are not required to certify that the property meets HUD HB 4000.1 standards. The appraisal must be completed in accordance with the Uniform Standards of Professional Practice (USPAP) and the Uniform Appraisal Dataset (UAD).

This exception is not applicable to existing manufactured housing pilot program, new construction properties, or construction to permanent loans.

Repair Inspections – Existing Dwelling (no change, just extended)
Loans for which a completion certification is not available due to issues related to the COVID-19 pandemic, a letter signed by the borrower confirming that the work was completed is permitted. Lenders must also provide further evidence of completion, which may include photographs of the completed work, paid invoices indicating completion, occupancy permits, or other substantially similar documentation. All completion documentation must be retained in the loan file and all repairs must be completed prior loan purchase.

Verbal Verification of Employment (no change, just extended)
Lenders must document and verify the borrowers annual and repayment income in accordance with Agency regulations. Lenders should use due diligence in obtaining the most recent income documentation to reverify the borrowers repayment ability prior to closing. When the lender is unable to obtain a Verbal Verification of Employment (VVOE) within 10 business days **(CMG requires 7 days**) of loan closing due to a temporary closure of the borrower's employment, alternatives should be explored. For example,email correspondence with the borrower's employer is an acceptable alternative to a VVOE. If the lender is unable to obtain a VVOE or acceptable alternative, and the borrower has a minimum of 2 months cash reserves the loan must be submitted for a level 4 exception review.

In the case of a reduction of income, the borrower's reduced income must be sufficient to support the new loan payment and other non-housing obligations. Borrower's with no income at the time of closing are not eligible for SFHGLP loans regardless of available cash reserves.

Frequently Asked Questions (FAQs): Additional FAQs related to the origination and servicing of USDA Single Family Housing Guaranteed loans have been added to the previously posted FAQs. The revised document has been posted to the [USDA LINC Training and Resource Library.]

Effective date: *The temporary exceptions issued on March 27, 2020 pertaining to appraisals, repair inspections and income verification for the Single Family Housing Guaranteed Loan Program (SFHGLP) due to the COVID-19 pandemic have been extended until August 31, 2020 and apply to the requirements in the program handbook HB-1-3555 for new loans, described below.*

REMINDER: 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

REMINDER: VA PUBLISHED GUIDANCE FOR BORROWERS IN FORBEARANCE

Summary: As a reminder, VA has published Circular 26-20-25 permitting veterans who were affected by COVID-19 to obtain a new VA purchase or refinance loan. VA is temporarily waiving certain regulatory and policy requirements in an effort to help Veterans and the private sector close essential housing loans. Please review the full off cycle memo for details regarding VA's direction for purchase, cash-out, and IRRRL transactions – including these key highlights:

- 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. Lenders must continue to review and evaluate all applicable credit qualifying information, e.g., residual income, debt-to-income ratios, credit, and assets.

- 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.
- For IRRRLs, VA is temporarily waiving certain prior approval requirements applicable to delinquent loans. Please note that 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.

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

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

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