CMG FINANCIAL
Correspondent Lending

BULLETIN #2015-22

TO: Distribution | **DATE: July 13, 2015**

RE: Credit Policy Updates | **EFFECTIVE: As noted below**

CMG CREDIT POLICY UPDATES

Topics Covered in this Announcement:

- Fannie Mae Updates - Annoucement SEL-2015-07 & DU Version 9.2 August Update
- Freddie Mac Update – Alignment with Freddie Mac in regards to stocks, bonds and mutual funds on LP loans
- Subordinate Financing

FANNIE MAE UPDATES - ANNOUNCEMENT SEL-2015-07 & DU VERSION 9.2 AUGUST UPDATE

Summary: CMG is aligning with the following Fannie Mae Selling Guide Updates as announced in SEL-2015-07 (scheduled to be incorporated into the DU Version 9.2 August Update, when applicable). For those changes that are effective immediately, the DU messaging will not be updated until August 2015; however, the current DU messaging may be disregarded if all current Fannie Mae eligibility criteria are met.

CMG Guidelines: CMG Guidelines are scheduled to be updated and reposted with the above updates (as applicable) no later than Wednesday, July 15th.
References:

- CMG's Income Validation Policy
- Fannie Mae SEL 2015-07
- DO/DU Release Notes DU Version 9.2 August Update

Effective Date:Immediately.
DU will be updated the weekend of August 15th, 2015 to reflect these changes.

Conversion of Principal Residence Requirements No Longer Apply

- Fannie Mae is eliminating the requirements specifically associated with the conversion of a principal residence to a second home or investment property. B3-6-06, Qualifying Impact of Other Real Estate Owned.
- Standard rental income and financial reserve requirements when the borrower converts his or her current principal residence to an investment property must be adhered to:
  - B3-3.1-08, Rental Income,
  - B3-4.1-01, Minimum Reserve Requirements, as applicable.

Reminder: Requirements for multiple financed properties must always be met, when applicable (B2-2-03, Multiple Financed Properties for the Same Borrower).

Unreimbursed Employee Business Expenses

The following changes and clarifications apply to unreimbursed employee business expenses for **DU loans only** (they are not applicable to loans underwritten with LP):

- For a borrower who is qualified using base pay, bonus, overtime, or commission income less than 25% of the borrower's annual employment income:
  - Unreimbursed employee business expenses are not required to be analyzed or deducted from the borrower's qualifying income, or added to monthly liabilities. This applies regardless of whether unreimbursed employee business expenses are identified on tax returns (IRS Form 2106) or tax transcripts received from the IRS.
  - Union dues and other voluntary deductions identified on the borrower's paystub do not need to be deducted from the borrower's income or treated as a liability.
  - Although Fannie Mae does not require tax returns to document these sources of income, **transcripts must still be obtained and included in the loan file as per CMG's Income Validation Policy.**
- For borrowers earning commission income that is 25% or more of annual employment income, unreimbursed employee business expenses must be deducted from gross commission income regardless of the length of time that the borrower has filed that expense with the IRS.
  - The exception to this is if the expense is an actual automobile lease or loan payment. If borrowers report an automobile allowance as part of their monthly qualifying income, the underwriter must determine if the automobile expenses reported on IRS Form 2106 should be deducted from income or treated as a liability.

CMG's Income Validation Policy is also being updated with the following in order to align with the Fannie Mae update in regards to disregarding 2106 expenses for eligible DU loans (not applicable to LP loans):

- Except as noted in this paragraph, CMG requires 2106 expenses to be considered in the borrower's cash flow in all cases, including hourly and salaried borrowers. The only exception is for a DU approved conventional conforming loan when a borrower is qualified using base pay, bonus, overtime, or commission income less than 25% of the borrower's annual employment income. In this case, unreimbursed employee business expenses are not required to be analyzed or deducted from the borrower's qualifying income, or added to monthly liabilities regardless of whether they are identified on tax returns or tax transcripts. **Transcripts must still be obtained and included in the loan file.**

Notes: There is no change to the CMG requirement to obtain tax transcripts. Applies to DU conventional conforming loans only.

Stocks, Bonds, and Mutual Funds

DU Loans: Fannie Mae is updating the policies related to the use of vested stocks, bonds, and mutual funds (including retirement accounts) when they are used for down payment, closing costs, and reserves. Instead of requiring a standard reduction in value, the policies have been simplified as follows:

- One hundred percent (100%) of the value of the asset is allowed when determining available reserves.
- If the lender documents that the value of the asset is at least 20% more than the funds needed for the borrower's down payment and closing costs, no documentation of liquidation is required. Otherwise, documentation of the borrower's actual receipt of funds realized from the sale or liquidation must be obtained.

NOTE: *As a reminder, non-vested assets are not eligible for down payment, closing costs, or reserves.*

LP Loans: In addition, CMG conventional conforming guidelines will be updated to reflect that CMG aligns with Freddie Mac in regards to stocks, bonds and mutual funds. Freddie allows 100% of the value to be considered; however, LP loans will continue to require proof of liquidation if used for closing.

Tip Income

Fannie Mae allows tip income to be included in qualifying income if the lender can verify that the borrower has received the income for the last two years. Tip income can be verified using a *Request for Verification of Employment* (Form 1005 or Form 1005 (S)), or recent paystubs and IRS W-2 forms.

- In some cases, the full amount of the tip income earned by the borrower may not be reported by the employer on the Form 1005, paystub and W-2 form. However, the borrower may report additional tip income to the IRS using Form 4137, Social Security and Medicare Tax on Unreported Tip Income, when filing his or her tax returns. Fannie Mae will allow this tip income to be used in qualifying if the lender obtains the most recent two years of federal income tax returns with Form 4137.

Subordinate Financing

CMG aligns with Fannie Mae in regards to eligibility of subordinate financing. This includes the recent update regarding permitting prepayment penalties on subordinate liens and the schedule DU Version 9.2 update and clarifications for Community Seconds® loans eligible for DU.

Please contact your Correspondent Regional Manager or your Correspondent Liaison with any questions.

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