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**TO: Distribution**

**DATE: July 29, 2020**

**RE: CMG Financial Correspondent Lending  
Updates 2020-48**

**EFFECTIVE: As noted below**

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## **CMG FINANCIAL CORRESPONDENT LENDING UPDATES**

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

- FHA Update: Rental Income & Self-Employed Income Temporary Requirements

### **FHA UPDATE: RENTAL INCOME & SELF-EMPLOYED INCOME TEMPORARY REQUIREMENTS**

**Summary:** The Federal Housing Administration (FHA) published [Mortgagee Letter \(ML\) 2020-23](#), COVID-19 Updated Temporary Guidance for Verification of Self-Employment; Rental Income. FHA is updating its income requirements for self-employed Borrowers and Borrowers who rely on the receipt of rental income to qualify for an FHA-insured mortgage. The ML specifies temporary changes to the following requirements that are effective immediately:

- Updates to rental income underwriting requirements to address receipt of rental income, payment reserves and income calculations for mortgages with rental income being used to qualify a borrower. In addition to current handbook requirements, where a borrower is qualifying utilizing rental income, for each property generating rental income the Mortgagee must either:
  - Reduce the effective income associated with the calculation of rental income by 25%, or
  - Verify 6 months PITI reserves, or
  - Verify the borrower has received the previous 2 months rental payments as evidenced by borrower's bank statements showing the deposit. (This option is applicable only for borrowers with a history of rental income from the property – history must be reported on most recently filed tax return).
- Similar to CMG current requirements, FHA issued modifications to self-employment income policy to require mortgagees to verify the existence and operating status of a borrower's business. When self-employment income is used to qualify the Borrower, the Mortgagee must verify and document that the income derived from self-employment is stable with a reasonable expectation that it will continue. Now FHA specifies that the Mortgagee must verify the existence of the borrower's business within 10 calendar days prior to the date of the Note to confirm that the Borrower's business is open and operating. The Mortgagee must obtain one of the following to verify and confirm that the business is open and operating:
  - evidence of current work (executed contracts or signed invoices that indicate the business is operating on the day the lender verifies self-employment);
  - evidence of current business receipts within 10 days of the note date (payment for services performed);
  - lender certification that the business is open and operating (lender confirmed through a phone call or other means); or

- business website demonstrating activity supporting current business operations (timely appointments for estimates or service can be scheduled).

**Effective Date:** *The verification of business operations for self-employed borrowers and Rental Income guidance in this ML is effective for cases with Note Dates on or after July 28, 2020 through November 30, 2020.*

**Link:** [Mortgage Letter \(ML\) 2020-23](#)

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



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