
TO: Distribution

DATE: July 30, 2020

**RE: CMG Financial Correspondent Lending
Updates 2020-49**

EFFECTIVE: As noted below

CMG FINANCIAL CORRESPONDENT LENDING UPDATES

Topics Covered in this Announcement:

- FHA Revised Effective Date: 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. Yesterday, **FHA published ML 2020-24 revising the effective date for requirements in ML 2020-23**. The ML specifies temporary changes to the following requirements:

- 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 the Rental Income guidance in this ML is effective for case numbers assigned on or after August 12, 2020 through November 30, 2020. This effective date supersedes the effective date announced in Mortgagee Letter 2020-23. Note: For self-employed borrowers CMG continues to require confirmation that the business is currently operating prior to closing; however, there will be no exception to documenting this within the 10 calendar days prior to the note date with case numbers beginning August 12th.

Link: [Mortgagee Letter \(ML\) 2020-23](#)
[Mortgage Letter \(ML\) 2020-24](#)

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