

BULLETIN # 2019-38

TO: Distribution

DATE: August 7, 2019

RE: CMG Financial Correspondent Lending
Updates

EFFECTIVE: As noted below

CMG FINANCIAL CORRESPONDENT LENDING UPDATES

Topics Covered in this Announcement:

- FHA Changes for Cash-out Refinances and Other Handbook Updates
- Ginnie Mae Publishes APM 19-05- Action to Take is Pending

FHA CHANGES TO CASHOUT REFINANCES AND OTHER HANDBOOK UPDATES

Summary: In addition to FHA announcing the implementation of a cash-out refinance policy change, FHA has also updated the 4000.1 Handbook for a number of topics.

- ML 2019-11: Reduction of Maximum LTV & CLTV to 80%. This Mortgagee Letter reduces the current Maximum Loan-To-Value (LTV) and Combined Maximum Loan-To-Value (CLTV) percentages to 80 percent on Cash-out Refinance Mortgages.
 - Effective date: Case numbers assigned on or after September 1st
 - <https://www.hud.gov/sites/dfiles/OCHCO/documents/19-11ml.pdf>
- 4000.1 Handbook Update: Commission Income – deleted info – no longer requiring tax returns

(C)Required Documentation ~~Text was deleted in this section.~~

For ~~all~~ Commission Income less than or equal to 25 percent of the Borrower's total earnings, the Mortgagee must use traditional or alternative employment documentation.

~~For Commission Income greater than 25 percent of the Borrower's total earnings, the Mortgagee must obtain signed tax returns, including all applicable schedules, for the last two years. In lieu of signed tax returns from the Borrower, the Mortgagee may obtain a signed IRS Form 4506, Request for Copy of Tax Return, IRS Form 4506-T, Request for Transcript of Tax Return, or IRS Form 8821, Tax Information Authorization, and tax transcripts directly from the IRS.~~

(D) Calculation of Effective Income ~~Text was deleted in this section.~~

The Mortgagee must calculate Effective Income for commission by using the lesser of: ~~(a)~~

- ~~either, (i) the average net Commission Income earned over the previous two years for Commission Income earned for two years or more, or (ii) the length of time Commission Income has been earned if less than two years; or~~
- ~~or (b) the average net Commission Income earned over the previous one year. The Mortgagee must calculate net Commission Income by subtracting the unreimbursed business expenses from the gross Commission Income.~~

~~The Mortgagee must reduce the Effective Income by the amount of any unreimbursed employee business expenses, as shown on the Borrower's Schedule A. For information on analyzing the Borrower's 1040, review [Analyzing IRS Forms](#).~~

- 4000.1 Handbook update to clarify the calculation of overtime, bonus, or tip income.
 - The Mortgagee may use Overtime, Bonus and or Tip Income as Effective Income if the Borrower has received this income for the past two years and it is reasonably likely to continue.
 - Periods of Overtime, Bonus and or Tip Income less than two years may be considered Effective Income if the Mortgagee documents that the Overtime, Bonus and or Tip Income has been consistently earned over a period of not less than one year and is reasonably likely to continue.
 - For employees with Overtime, Bonus or Tip Income, the Mortgagee must calculate the Effective Income by using the lesser of:
 - the average Overtime, Bonus or Tip Income earned over the previous two years or, if less than two years, the length of time Overtime, Bonus or Tip Income has been earned; or
 - the average Overtime, Bonus or Tip Income earned over the previous year.
- 4000.1 Handbook Updates. For the calculation of automobile allowance the handbook no longer states that the Mortgagee must obtain IRS Form 2106. It now reads as follows:
 - The Mortgagee must verify and document the Automobile Allowance received from the employer for the previous two years.
 - In addition, Calculation of Effective Income now states:
 - The Mortgagee must use the full amount of the Automobile Allowance to calculate Effective Income, determine the portion of the allowance that can be considered Effective Income.
- 4000.1 Handbook reminder non permanent resident alien: HUD has confirmed: "Employment Authorization Document is required to substantiate work status":
 - The Employment Authorization Document is required to substantiate work status. If the Employment Authorization Document will expire within one year and a prior history of residency status renewals exists, the Mortgagee may assume that continuation will be granted. If there are no prior renewals, the Mortgagee must determine the likelihood of renewal based on information from the USCIS.
 - A Borrower residing in the U.S. by virtue of refugee or asylee status granted by the USCIS is automatically eligible to work in this country. The Employment Authorization Document is not required, but documentation substantiating the refugee or asylee status must be obtained.
 - In addition, CMG requires evidence of an acceptable visa. Acceptable visas include but are not limited to E-1, H-1B, H-2B, H-3, L-1, G-series (if borrower does not have diplomatic immunity) and O-1. (Borrowers without an acceptable visa will be considered on a case by case basis only.)

Summary: Ginnie Mae issued APM 19-05 announcing the implementation of changes to pooling eligibility requirements for Department of Veteran's Affairs (VA) guaranteed mortgages. It addresses both seasoning requirements and eligibility for pooling cashout refinances with LTVs > 90%. Please watch for future updates regarding the impact of this Ginnie Mae announcement.

Seasoning - Protecting Affordable Mortgages for Veterans Act of 2019 became law on 7/25/2019. This bill revises loan seasoning requirements related to a refinanced Department of Veterans Affairs (VA) housing loan. Under previous law, the VA was prohibited from guaranteeing a refinanced home loan until the date that is the later of (1) the date on which the sixth monthly payment is made, or (2) the date that is 210 days after the first payment is made.

Action to Take: No changes at this time. VA refinances must continue to meet the more restrictive of Ginnie Mae and VA seasoning requirements. Although the law has passed and Ginnie Mae has issued updated seasoning requirements, updates from VA are pending. Until VA issues updated guidance, the 210 day waiting period continues to be based on the date the first payment is made.

- VA IRRRLs must continue to meet the seasoning requirement noted in Circular 26-18-13: https://www.benefits.va.gov/HOMELOANS/documents/circulars/26_18_13.pdf
- VA non-IRRRL refinance transactions must continue to meet seasoning requirements noted in Circular 26-19-05: https://www.benefits.va.gov/homeloans/documents/circulars/26_19_5.pdf

Links:

[Ginnie Mae APM 19-05](#)

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