

BULLETIN # 2018-27

TO: Distribution

DATE: August 8, 2018

RE: CMG Financial Correspondent Lending Updates

EFFECTIVE: As noted below

CMG FINANCIAL CORRESPONDENT LENDING UPDATES

Topics Covered in this Announcement:

- Freddie Mac Updates
- Fannie Mae Close by Date & DU Validation Services FAQs
- Heads Up-New Programs to Replace HARP later in 2018
- Fraud Alert- Misrepresentation of Borrower Employment- Northern California

FREDDIE MAC UPDATES

Summary: With the release of Bulletin 2018-12, Freddie Mac has updated guidance on Lender Credit applied as a principal curtailment as well as updated guidance on contingent liabilities. See below for details.

LENDER CREDIT

Currently, the Freddie Mac Guide requires that the amount of a lender credit not exceed the Borrower's Closing Costs. To assist lenders when the amount of lender credit exceeds the Borrower's Closing Costs we will now allow lenders to apply any excess lender credit as a principal curtailment toward the Mortgage.

This includes situations where regulatory requirements do not permit reduction of the amount of the lender credit without re-disclosure to the Borrower, which may delay closing. Additionally, we are updating the Guide to state the following requirements:

- The lender credit must be derived from an increase in the interest rate (i.e., premium pricing) or be funded directly by the Seller
- The lender credit must not require repayment
- The lender must not use funds from a third party to provide a lender credit

The applicable Loan Product Advisor® feedback message has been updated to align with this change. Guide impacts: Sections 4501.10, 5501.6 and 6302.14

CONTINGENT LIABILITIES AND ASSIGNED DEBT

Currently, a mortgage debt that is a contingent liability may be excluded from the Borrower's monthly debt payment-to-income ratio if it meets certain requirements and the lender confirms the Borrower is not on the title for the mortgaged property. Additionally, a secured debt, including a Mortgage, that has been assigned to another by court order, such as divorce decree, may be excluded from the Borrower's monthly debt payment-to-income ratio when the lender documents the court order and the transfer of title.

To provide Sellers with additional flexibility and to address Seller requests, Freddie Mac is no longer requiring the lender to document:

- That the Borrower is not on the title for the mortgaged property, or
- The transfer of title of the mortgaged property

Guide impact: Section 5401.2

Link: [Bulletin 2018-12](#)

Effective Date: *Both the above enhancements are effective immediately. CMG guidelines are updated and reposted to reflect this Freddie Mac update.*

FANNIE MAE: CLOSE BY DATE & DU VALIDATION SERVICES FAQ

Summary: The Desktop Underwriter® (DU®) validation service [Frequently Asked Questions \(FAQs\)](#) have been updated to incorporate four new FAQs, three about Verification of Employment (VOE) and one about Verification of Income (VOI). These questions have been

added to provide clarity around the time-sensitive VOE and VOI requirements and options for re-verification. It is critical to adhere to "close by dates" identified by DU.

Four new FAQs:

Q36. NEW. What is the impact to income validation when an updated verification of employment report indicates the borrower is no longer actively employed?

Income validation is contingent upon employment validation. If DU is not able to validate employment at the time an updated verification of employment report is submitted to DU, then DU will no longer validate income from this employer. In that case, the lender should follow standard income and employment documentation requirements.

Q38. NEW. How can I obtain employment validation, for non-self-employed borrowers, through the DU validation service?

- Order a Verification of Income and Employment, or a Verification of Employment report from an Approved Vendor, then
- Submit the casefile to DU
- If DU issues the message stating that employment has been validated, then close the loan by the 'close by' date reflected in the DU message.

Q43. NEW. If the employment validation expires because the loan did not close by the required close date, what options are available to revalidate employment?

- To re-validate employment and **obtain** updated income validation: The lender can choose to reorder a Verification of Income and Employment, or a Verification of Employment (VOE) report and resubmit the casefile to DU. If DU is able to validate employment, DU will re-issue income and employment validation messages, including updated close by dates, which apply as a result of the updated report.
- To re-verify employment and **retain** income validation: If the lender does not obtain an updated Verification of Income and Employment, or a Verification of Employment (VOE) report and/or does not resubmit the casefile to DU in order to update employment and income validation through the DU validation service, the lender must follow the standard Selling Guide requirements for verifying employment prior to delivering the loan to Fannie Mae.

Q44. NEW. If the lender chooses to re-verify employment (vs. re-validate employment through the DU validation service) will the loan retain income validation?

Income validation is retained provided (1) the lender follows the standard Selling Guide requirements for verifying employment (2) the borrower remains employed with the same employer for which income is validated (3) the loan file does not contain conflicting and contradictory information related to the borrower's employment status or income from this employer and (4) the loan closes by the income validation close by date identified by DU.

Action to Take: Carefully watch close by dates identified by DU in regards to Validation services.

Effective Date: *N/A this is FAQ only.*

HEADS UP: NEW POROGRMS TO REPLACE HARP IN LATE 2018

Summary: Home Affordable Refinance Program® (HARP®) is formally ending December 31, 2018. Both Fannie Mae and Freddie Mac have announced replacement programs that will be implemented at a future date.

- Fannie Mae is referring to their new option as the "High LTV Refinance Option"; it will replace DU Refi Plus™
- Freddie Mac is referring to their new option as the "Enhanced Relief Refi"; it will replace Relief Refinance Mortgage – Open Access offerings.

Action to Take: Watch for future announcements and CMG's availability of these programs and retirement of the existing DU Refi Plus and Freddie Mac Open Access.

Links:

- Fannie Mae's High LTV Refinance Option webpage: [Click Here](#)
- Freddie Mac's Enhanced Relief Refi webpage: [Click Here](#)

Effective Date: *TBD*

FRAUD ALERT- MISREPRESENTATION OF BORROWERS EMPLOYMENT- NORTHERN CALIFORNIA

Summary: Fannie Mae has issued a new fraud alert identifying 10 apparently fictitious employers being used on loan applications in Northern California. This scheme is similar to the one identified in a fraud alert they issued in May 2018 (updated June 30, 2018), but the geographic area is different. You may view the [fraud alert](#) and other resources on the

Fannie Mae [Mortgage Fraud Prevention page](#).

This Alert addresses a scheme containing borrower profiles and Red Flags common to the previous Fraud Alert. The primary difference is a geographic expansion of the fraudulent activity to Northern California. Contained in this alert you will find:

- 10 new purported employers
- Northern California venues
- A commonality to those loans addressed in the Fraud Alert released May 24, 2018 (updated June 28, 2018)

Refer to exhibits (page 3-6) in [Fannie Mae's Fraud Alert](#) for actual examples of red flags that may indicate fraudulent documentation

LOAN COMMON DENOMINATORS / CHARACTERISTICS

Fannie Mae's Mortgage Fraud Program has identified several entities listed on loan applications as places of employment that appear to be fictitious. The following list of employers contains 10 entities / businesses that were listed as the borrower's purported place(s) of employment but whose existence Fannie Mae could not confirm

LIST OF EMPLOYER NAMES

This list is as of July 31, 2018 and is subject to change:



RED FLAGS

- TPO / broker loans
- Originated 2015-2018 (present)
- Employment (occupation) does not "sensibly" coincide with borrower's profile (age or experience)
- Northern California (geographic common denominator)
- Borrower on current job for short period of time
- Prior borrower employment shows "Student"
- Starting salary appears high
- Purported employer does not exist
- Northern California venues
- A commonality to those loans addressed in the Fraud Alert released May 24, 2018 (updated June 28, 2018)

Links:

- [Fannie Mae's Fraud Alert](#)
- [Fannie Mae's Mortgage Fraud Prevention webpage](#)
- [Fannie Mae's Fraud Alert dated 08.02.18- Misrepresentation of Borrower Employment Scheme](#)

Effective Date: *Immediately*

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



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