

BULLETIN # 2019-40

TO: Distribution

DATE: August 14, 2019

RE: CMG Financial Correspondent Lending Updates

EFFECTIVE: As noted below

CMG FINANCIAL CORRESPONDENT LENDING UPDATES

Topics Covered in this Announcement:

- VA Circular 26-19-22: VA IRRRLs
- Reminder- Change to Max LTV of 90% for VA Cashout Refinance (Type I & II)
- Disaster Updates- Texas & Missouri

VA CIRCULAR 26-19-22: VA IRRRLs

Summary: VA has issued Circular 26-19-22 and three associated exhibits. The Circular consolidates and clarifies VA policy regarding how the Economic Growth, Regulatory Relief, and Consumer Protection Act (May 25, 2018 law) affects IRRRLs. The Circular also updates loan seasoning requirements recently modified by S. 1749, "Protecting Affordable Mortgage for Veterans Act". This Circular supersedes all earlier IRRRL policy updates. The main topics addressed are

- Fixed Rate to Fixed Rate IRRRLs (no change) New interest rate "must not be less than .50 percent" (50 bps) lower than rate on loan being refinanced
- Fixed Rate to ARM IRRRLs (same basics, written more clearly with better examples). New interest rate "must not be less than 2 percent" (200 bps) In Fixed to ARM cases, discount points may be added to principal loan amount only if:
 - Lower interest rate is not produced solely from discount points
 - Some portion of lower interest rate is the result of favorable changes in market
 - Lower interest rate is solely produced from discount points
 - Discount points equal or less than one point are added to loan amount and the resulting loan balance after any fees and expenses maintains an LTV of 100% or less
 - Lower interest rate is produced solely from discount points (more than one discount point)
 - Maximum LTV is 90%
 - No more than two discount points can be included in new IRRRL loan
 - Appraisal requirements for Fixed to ARM loans
 - Appraisal "need not be ordered through VA's appraisal system"
 - VA will accept Fannie Mae 2055 Exterior Only Inspection Reports as well as Fannie Mae 1004
 - Fee to veteran must be reasonable and customary Fee Recoupment (includes a new "no closing cost" option

when pmt is increasing; revised calculation)

- Net Tangible Benefit (primarily clarifications and examples)
- Seasoning (aligns with Ginnie Mae's recent announcement for 210 days to be from 1st pmt due)
- the Loan Comparison Statement Disclosure/Veteran Certification (clarifies calculation and reiterates that borrower must receive initial within 3 days of application and a final at closing.)

Please refer to the Circular and exhibits A, B & C for complete guidance. Significant updates and clarifications of the Circular include, but are not limited to, the following:

- Recoupment - Important! This recoupment period applies to all IRRRLs and may use a different calculation than the recoupment calculation required for the Loan Comparison Statement.
 - If P&I payment is declining, recoupment period of fees, closing costs and expenses (other than taxes, escrow and funding fee) does not exceed 36 months from loan closing. Calculating Recoupment. Recoupment is calculated by dividing all fees, expenses, and closing costs, whether included in the loan or paid outside of closing (i.e., an appraisal fee), by the reduction of the monthly PI payment. NEW: The VA funding fee, escrow, and prepaid expenses, such as, insurance, taxes, special assessments, and homeowners' association (HOA) fees, are excluded from the recoupment calculations. From exhibit B:

Fees, Expenses, and Closing Costs (FECC) to be Recouped

Refer to the below table for information about specific fees and charges to be included in or excluded from the recoupment calculation. *Please continue to refer to Chapter 8 of VA Lenders Handbook (M26-7) for information about allowable fees, expenses, and closing costs.*

<u>Included FECC</u>	<u>Excluded FECC</u>
<ul style="list-style-type: none">• Allowable fees and charges<ul style="list-style-type: none">- Included in the loan amount- Paid outside of closing• Credit report (if required)• Appraisal fee¹ (if applicable and the lender requires Veteran to pay)• Reasonable discount points<ul style="list-style-type: none">- Included in the loan amount- Paid outside of closing <p>Note: Lender credits may be used to offset allowable fees and charges (including discount points).</p>	<ul style="list-style-type: none">• VA funding fee ←• Per diem interest• Escrow• Prepaid expenses<ul style="list-style-type: none">- Insurance- Taxes (including delinquent taxes)- Special assessments- Homeowners' association (HOA) fees <p>Note: This is not an all-inclusive list of prepaid expenses.</p>

¹ The Veteran may only be charged a reasonable and customary amount, and only charged for one appraisal.

- NEW: If P & I payment is increasing, confirm veteran has incurred no fees other than taxes, escrow and the funding fee.
- Net Tangible Benefit (NTB)
 - Fixed Rate to Fixed Rate IRRRLs (no change) New interest rate "must not be less than .50percent" (50 bps) lower than rate on loan being refinanced
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 - Lower interest rate is produced solely from discount points (more than one discount point)
 - Maximum LTV is 90%

- No more than two discount points can be included in new IRRRL loan
 - Appraisal requirements for Fixed to ARM loans
 - Appraisal "need not be ordered through VA's appraisal system"
 - VA will accept Fannie Mae 2055 Exterior Only Inspection Reports as well as Fannie Mae 1004
 - Fee to veteran must be reasonable and customary
- Loan Seasoning - Circular states:
 - Both of the following conditions must be met as of the date of loan closing
 - "due date of the first monthly payment of the loan being refinanced is 210 days or more prior to the closing date of the refinance loan and
 - Six consecutive monthly payments have been made on the loan being refinanced". VA will look for evidence that refinanced loan was "properly seasoned". Evidence could include payment ledger/history or credit bureau supplement.
- Loan Comparison Statement / Disclosure
 - Timing - Comparison statement is still required 3 business days from initial application date and at loan closing
 - Recoupment period in months for all fees, expenses and closing costs (including taxes, escrow and funding fee) whether included in loan or paid outside closing.
 - This recoupment calculation differs from the earlier mentioned recoupment. If this calculation shows recoupment < 36 months as shown on the closing loan comparison statement this satisfies both recoupment calculations. To complete the recoupment calculation for the purposes of the comparison statements:
 - Add the following from the LE (initial disclosure) or CD (final disclosure)
 - Origination charges, services you cannot shop for, services you can shop for, taxes, government fees and the VA funding fee
 - Subtract any lender credits
 - Divide remaining amount by decrease in monthly payment. Note monthly P&I payment is calculated using total loan amount including any financed VA funding fee
 - Veteran Certification
 - Veteran must communicate that he/she received disclosures. This communication is not tied to time periods for delivering the disclosures
 - Example of acceptable disclosure timeframe:
 - On September 1st, 2019, veteran could acknowledge they received initial disclosure on August 1 (one day after loan submission) and August 20th (date of closing)
 - Lender should retain evidence in file

Links: https://www.benefits.va.gov/HOMELOANS/documents/circulars/26_19_22.pdf

https://www.benefits.va.gov/homeloans/documents/circulars/26_19_22_exhibita.pdf

https://www.benefits.va.gov/homeloans/documents/circulars/26_19_22_exhibitb.pdf

https://www.benefits.va.gov/homeloans/documents/circulars/26_19_22_exhibitc.pdf

Effective Date: Circular is effective immediately and also applies to loans w/ applications taken on or after the date the law changed (May 25, 2018) and before the date of this circular (August 8th). Until VA publishes a final rule updating its IRRRL regulations, in instances where regulatory provisions unequivocally conflict with this Circular, this Circular constitutes VA's interpretation of current policy.

The following are rescinded effective immediately: Circular 26-18-1, Policy Guidance for VA Interest Rate Reduction Refinance Loans (IRRRL); Circular 26-18-1, Change 1; Circular 26-18-1, Change 1 Exhibit A, Frequently Asked Questions (FAQ); Circular 26-18-13, Policy Guidance Update: VA Refinance Loans and the Economic Growth, Regulatory Relief and Consumer Protection Act; Circular 26-18-13, Exhibit A, Lender Instructions When Determining Value for IRRRLs.

REMINDER- CHANGE TO MAX LTV OF 90% FOR VA CASHOUT REFINANCES

Summary: As a reminder CMG will be updating VA guidelines to reflect a maximum LTV of 90% for all VA (non-IRRRL) refinances. The flexibility to exceed 90% LTV will be reconsidered by CMG once the markets react and a pricing baseline can be established. This is in response to Ginnie Mae's APM 19-05 regarding High LTV VA Cash-Out Refinance Loans.

Please refer to key cutoff dates below for VA Non-IRRRL Refinances with LTV >90%:

Cutoff Date		VA Non-IRRRL Refinances with LTV >90%
		<i>(Applies to all VA refinance transactions except IRRRLs. LTV is based on Total Loan Amount.)</i>
8/31/2019		Last date to lock*
9/30/2019		Last date to fund (or purchase for Correspondent and Select Partner loans)
11/1/2019		Last 1 st payment date allowed on all Notes (no exceptions)

*exceptions will be considered to lock after this date for shorter term locks, assuming loans can meet the funding/purchase cutoff date. Please contact lockdesk if an exception is needed. Under no circumstance will an exception be granted if the 1st payment date exceeds 11/1/2019.

Notes:

- The max LTV is based on the total loan amount including any financed portion of the VA Funding Fee.
- This update impacts all VA Type I & Type II "Cashout" Refinances (all VA non-IRRRL refinance transactions.)

Effective Date: *Cutoff dates as noted above.*

Link: [Ginnie Mae APM 19-05](#)

DISASTER LIST UPDATES- TEXAS & MISSOURI

Summary: CMG's Disaster List is updated with the counties noted below that have FEMA individual assistance status. CMG's Disaster Area Policy applies.

Texas Severe Storms And Flooding (DR-4454) <https://www.fema.gov/disaster/4454>

Incident Period: June 24, 2019 - June 25, 2019

Major Disaster Declaration declared on July 17, 2019

Individual Assistance (Assistance to individuals and households):

- **Cameron, Hidalgo, Willacy**

Missouri Severe Storms, Tornadoes, And Flooding (DR-4451) <https://www.fema.gov/disaster/4451>

Incident Period: April 29, 2019 - July 05, 2019

Major Disaster Declaration declared on July 09, 2019

The following counties were added for Individual Assistance via amendment on August 5:

Calloway, Jefferson, Lewis, McDonald, Newton, and Saline Counties

<https://www.fema.gov/disaster/notices/amendment-no-3-41>

Link: [CMG Disaster Area Policy](#)

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



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