CMG FINANCIAL
Correspondent Lending

BULLETIN # 2019-48

TO: Distribution

DATE: September 11, 2019

RE: CMG Financial Correspondent Lending Updates

EFFECTIVE: As noted below

CMG FINANCIAL CORRESPONDENT LENDING UPDATES

Topics Covered in this Announcement:

- Manufactured Homes- LPA Eligibility
- Manufactured Homes- Ineligible "Non-Surrender" States
- FHA's " Building on Own Land" Now Eligible
- VA Lender's Handbook Updates
- All In One #801- Prime Update Commission Income

MANUFACTURED HOMES- LPA ELIGIBILITY

Summary: Effective immediately- CMG will permit manufactured homes with LPA approval for conventional conforming loans. Currently CMG only permits manufactured homes underwritten with DU for conventional conforming products. This update applies to standard loan amounts and high balance. All manufactured homes underwritten with LPA must meet all current CMG standards for manufactured homes as well as Freddie Mac's Selling Guide requirements in the Single-Family Seller/Servicer Guide (Guide) Chapter 5703. This update does NOT apply to Imagin products as manufactured homes continue to be ineligible for agency paid mortgage insurance.

Effective Date: *Immediately*

MANUFACTURED HOMES- INELIGIBLE "NON-SURRENDER' STATES

Summary: Effective immediately- CMG will not permit manufactured homes in "non-surrender" certificate of title states. Non-surrender states include New York, New Jersey and Louisiana. This restriction applies to all financing types and loan programs as well as any additional non-surrender states. Manufactured homes continue to eligible as noted in the guidelines for non certificate of title states and certificate of title states that allow for the elimination, cancellation, or surrender of the certificate of title as a part of the real property conversion process.

Effective Date: *Immediately*

FHA'S "BUILDING ON OWN LAND" NOW ELIGIBLE

Summary: With the recent revisions to the FHA Handbook 4000.1 regarding construction/permanent loans and the "Building on Own Land" option, CMG will now permit FHA's "Building On Own Land". With Mortgagee Letter 19-08 FHA provided clarification of and revised policy for Construction to Permanent (CP) and Building on Own Land (BOOL) programs as follows:

- clarified distinctions in policy between each program based on financing structure, and

- revised guidance for use of the Borrower's equity in land for the purpose of satisfying the Borrower's Minimum Required Investment (MRI) in both programs.

CMG does not participate in new construction one time close transactions. With the revisions, the Construction to Permanent (CP) program combines the features of a construction loan with that of a traditional long-term permanent residential Mortgage using a single mortgage closing prior to the start of construction. As a result, CMG does not participate in what is now classified in the Handbook as the Construction to Permanent program. See below for information on "Building on Own Land" option that now applies and is eligible.

BUILDING ON OWN LAND (NOW ELIGIBLE)
Building on Own Land refers to the permanent financing of a newly constructed dwelling on land owned by the Borrower and may include the extinguishing of any construction loans.

The Borrower must have contracted with a builder to construct the dwelling. The builder must be a licensed general contractor. The Borrower may act as the general contractor, only if the Borrower is also a licensed general contractor.

Calculating Maximum Mortgage Amount: The Mortgagee must use the lesser of the appraised value or the documented Acquisition Cost to determine the Adjusted Value.
The maximum mortgage amount is calculated using the appropriate purchase Loan-to-Value (LTV) percentage of the lesser of the appraised value or the documented Acquisition Cost. The documented Acquisition Cost of the Property includes:

- the builder's price or the sum of all subcontractor bids and materials;
- Borrower-paid options and construction costs not included in the builder's price to build;
- interest and other costs associated with a construction loan obtained by the Borrower to fund construction, if applicable; and
- either of the following:
  - the lesser of the cost of the land, or appraised value of the land, if the land is owned six months or less at case number assignment;
  - or the appraised value of the land if the land has been owned for greater than six months at case number assignment or was received as an acceptable gift.

Minimum Required Investment: The Borrower may utilize any cash investment in the Acquisition Cost of the Property or land equity to satisfy the MRI in accordance with Calculating Maximum Mortgage Amount. The Mortgagee must document that the cash investment was from an acceptable source of funds in accordance with TOTAL or Manual Underwriting requirements as applicable.

If the land was given as a gift to the Borrower, the Mortgagee must verify that the donor was not a prohibited source. The Mortgagee must obtain standard gift documentation for any gift of land.

Borrower's Additional Equity in the Property: The Borrower may not receive cash back from the additional equity in the Property, but the Borrower may replenish their own cash expenditures for any Borrower-paid extras over and above the contract specifications and any out-of-pocket expenses not included in the builder's price. The Mortgagee must obtain an itemization of the extras and expenses and the cost of each item.

Required Documentation: The Mortgagee must document the date of purchase of the land by obtaining the Closing Disclosure or similar legal document. The Mortgagee must obtain evidence that the funds used to pay Borrower- paid options were derived from an acceptable source. The Mortgagee must obtain an itemization of the options, and expenses, and cost of each item.

In addition, FHA's New Construction requirements also apply.

Reminder: CMG does NOT permit new construction manufactured homes.

Effective Date: *Immediately*. CMG's FHA guidelines will be updated

VA LENDER'S HANDBOOK UPDATES

Summary: VA continues to issue Change Notices and update various chapters of the VA Lender's Handbook. These change notices are located at the bottom of the VA webpage for the VA Lender's Handbook: https://www.benefits.va.gov/warms/pam26_7.asp. At this time, both the previous and new chapters are listed.

Change #25 Provided updates to chapter 4 that include but are not limited to the following:

Foreclosure: If a foreclosure, deed in lieu, or short sale process is in conjunction with a bankruptcy, use the latest date of either the discharge of the bankruptcy or transfer of title for the home to establish the beginning date of re-established credit. If there is a significant delay in the transfer of title, the lender should contact the RLC of jurisdiction for guidance.

Self Employment Business Analysis: Deductions and Expenses Claimed on Tax Returns

- Depreciation claimed as a deduction on the tax returns and financial statements of the business may be included in effective income.
- Business or roll over losses must be considered from all tax returns.
- What is reported to the IRS on a joint return must be used when applying for a federally guaranteed loan.
- On a joint tax return, the loss must be deducted from the borrower's income in both community and non-community property states.
- On a joint tax return, when a borrower and co-borrower have been faced with business losses, the Veteran/borrower and his/her spouse may want to consider both being on the loan in order to potentially qualify. The credit of both borrowers will be considered.

Other types of Income: A borrower in receipt of VA Pension or Disability benefits with Aid and Attendance should be discussed with the VA Pension Service, VA Compensation Service or the VA Hospital where the property is located to determine if the income is likely to continue for the foreseeable future.

Effective Date: *The changes to the handbook are released via the change notices and the effective date of the handbook changes are as noted on the change notice.*

ALL IN ONE 3801 PRIME UPDATE COMMISSION INCOME

Summary: The All In One #801-Prime guidelines are updated to allow commission income on a case by case basis when the borrower is employed at the current employer less than one year. A minimum history of 2 years of commission income is still generally required.

- *Removed:* In all cases, commission employees must be employed for greater than 1 year at current employer in order to consider using commission income to qualify. No exceptions will be granted for less than 1 year.
- *Added:* A minimum history of 2 years of commission income is recommended; however, commission income that has been received for 12 to 24 months may be considered as acceptable income, as long as there are positive factors to reasonably offset the shorter income history. Note: If a borrower has <12 mos. at current employer, he/she must have at least 24mos. history as a commissioned employee within the same industry and demonstrate financial stability and continued earning potential.

Effective Date: *Immediately.. Guidelines are updated and reposted.*

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