
TO: Distribution

DATE: October 07, 2020

**RE: CMG Financial Correspondent Lending
Updates 2020-68**

EFFECTIVE: As noted below

CMG FINANCIAL CORRESPONDENT LENDING UPDATES

Topics Covered in this Announcement:

- FHA Disputed Derogatory Credit Reminders

FHA DISPUTED DEROGATORY CREDIT REMINDERS

Summary: As a reminder, FHA sets parameters for manually downgrading when the borrower has Disputed Derogatory Credit. Disputed Derogatory Credit Account refers to disputed charge off accounts, disputed collection accounts, and disputed accounts with late payments in the last 24 months. If the credit report utilized by TOTAL Mortgage Scorecard indicates that the Borrower has \$1,000 or more collectively in Disputed Derogatory Credit Accounts, the mortgage must be downgraded to a Refer and manually underwritten.

Disputed Derogatory Credit Account refers to

- disputed charge off accounts (regardless of "date"),
- disputed collection accounts (regardless of "date"), and
- disputed accounts with late payments in the last 24 months.

Exclusions from the \$1,000 cumulative balance include:

- disputed medical accounts; and
- disputed derogatory credit resulting from identity theft, credit card theft or unauthorized use. To exclude these balances, the lender must include a copy of the police report or other documentation from the creditor to support the status of the accounts.
- Accounts of a non-borrowing spouse in a community property state
- Non-derogatory disputed accounts (see below)

Non-Derogatory Disputed Accounts include the following types of accounts:

- disputed accounts with zero balance
- disputed accounts with late payments aged 24 months or greater
- disputed accounts that are current and paid as agreed

If a Borrower is disputing non-derogatory accounts or is disputing accounts that are not indicated on the credit report as being disputed, the lender is not required to downgrade the application to a Refer. However, the lender must analyze the effect of the disputed accounts on the Borrower's ability to repay the mortgage. If the dispute results in the Borrower's monthly debt payments used in computing the Debt-to-Income being less than the amount indicated on the credit report, the Borrower must provide documentation of the lower payments.

FAQ: If credit is pulled and there is a disputed collection, can the borrower pay the collection to mitigate the requirement to manually downgrade?

Answer: No, the collection settlement made by the borrower after application and the credit report pull does not negate HUD's requirement regarding disputed derogatory credit accounts. Since the credit score is affected by the dispute, the file must still be downgraded to "refer" & manually underwritten.

Key Summary Points:

- If a collection or charge off account is disputed, it is counted in the cumulative \$1,000. It does not matter how old the collection or charge off account is.
- If the credit report shows disputed derogatory accounts that exceed \$1,000, the case must be manually downgraded. You cannot pay off an account to avoid a manual downgrade.

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



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