

BULLETIN #2015-32

TO: Distribution

DATE: October 13, 2015

**RE: CMG Financial Correspondent Credit
Policy and Guideline Updates**

EFFECTIVE: As noted below

CMG CORRESPONDENT POLICY AND GUIDELINE UPDATES

Topics Covered in this Announcement:

- **Disaster Policy Update**
- **TRID Overview & Purchase Requirements**
- **FHA Derogatory Credit & Case Number Assignment Date**
- **HUD 4000.1 Handbook Significant Changes Resource**
- **FHA Clarifications/Updates**
- **VA IRRRL Clarification**
- **Conventional DU Loans and Manufactured Home Clarification**
- **Conventional Conforming Updates**

DISASTER AREA UPDATE

Summary: At the time of this announcement CMG will lift the mandatory statewide application of the Disaster Policy for North Carolina and South Carolina. A number of South Carolina counties (noted below) are in the FEMA Disaster Declaration for individual assistance and the zip code list has been updated for those counties.

CMG's Disaster Policy applies to the following South Carolina counties:

Bamberg County, Berkeley County, Calhoun County, Charleston County, Clarendon County, Colleton County, Darlington County, Dorchester County, Florence County, Georgetown County, Greenwood County, Horry County, Kershaw County, Lee County, Lexington County, Orangeburg County, Richland County, Sumter County and Williamsburg County.

Corporate Credit will continue to monitor the situation and will lift statewide considerations as the extent of the damage becomes clearer.

FEMA declaration. <https://www.fema.gov/disaster/4241/designated-areas>

[CMG Disaster Policy](#)

TRID PURCHASE REQUIREMENTS

Summary: The TRID Resource Page has been updated to include the TRID Purchase Requirements document for a quick reference guide.

Action to Take: Please visit the seller resource page for more information on TRID including previous webinars. [CMG Seller Resource TRID](#)

FHA DEROGATORY CREDIT & CASE # ASSIGNMENT DATE

Summary: As a reminder, FHA waiting periods for derogatory credit are based on the date of the case

number assignment. Once the case number is assigned the eligibility period is not impacted by any other factors such as extending closing. For case numbers assigned prior to 9/14/15, confirmation from HOC stating another waiting period applies may be acceptable.

Action to Take: Be aware of derogatory credit waiting periods and how they will impact loan eligibility based on CASE NUMBER ASSIGNMENT Date.

FHA UPDATES/CLARIFICATIONS

Summary: The CMG FHA Loan Matrix will be updated to reflect the following:

- CMG will purchase Good Neighbor Next Door (GNND) transactions that are insurable As-Is (Repair Escrow not allowed).
- Matrix will be updated with HUD requirement that non-owner occupied Properties and HUD-approved Secondary Residences are only eligible for Streamline Refinancing into a fixed rate Mortgage.
- Ineligible Asset Types will be updated to clarify that custodial accounts are not an eligible source of funds for closing costs (in addition to not being eligible as a source of funds for reserves and down payment).

Guidelines: CMG's FHA Loan Matrix will be updated and reposted no later than October 14th reflecting these updates/clarifications.

HUD 4000.1 HANDBOOK SIGNIFICANT CHANGES RESOURCE

Summary: CMG Financial Correspondent is pleased to offer a useful resource tool to help lenders navigate through significant changes per the new HUD 4000.1 Handbook. Please note these changes apply to FHA case numbers assigned on or after 9/14/2015.

This useful resource tool can be found in our cmgfi.com/correspondent/resources website under "FHA Resources": [CMG Financial – HUD 4000.1 Handbook](#)

VA IRRRL CLARIFICATION

Summary: When a VA IRRRL is eligible without a valuation product the "value" for LTV purposes is based on the original loan amount. If a valuation product is obtained it is acceptable to use that value as a current market value.

Guidelines: This clarification will be added to the guidelines next week.

CONVENTIONAL DU LOANS AND MANUFACTURED HOME CLARIFICATION

Summary: As noted in the guidelines, CMG permits manufactured homes only for the purchase/refinance of existing manufactured homes and land classified as a single piece of real property.

- Manufactured homes permanently attached in the 12 months preceding the loan application date are not eligible for either purchase or refinance transactions.
- Transactions in which the mortgage proceeds are used to finance the purchase of a new manufactured home, or a new manufactured home and the land, are not eligible.

Guidelines: Guidelines will be updated next week with the additional clarification.

CONVENTIONAL CONFORMING UPDATES

Summary - The following conventional conforming topics are addressed in this week's Corporate Memo:

- Freddie Mac Changes Effective Immediately
- Freddie Mac Changes/Enhancements Coming October 26, 2015

- Brief Overview of Fannie Mae Changes/Enhancements coming in Dec. 2015

FREDDIE MAC CHANGES EFFECTIVE IMMEDIATELY

Minimum Borrower contribution from Borrower Personal Funds

- The 5% contribution requirement for loans that have loan-to-value (LTV) ratios greater than 80% and are secured by Primary Residences and for which a gift or gift of equity from a Related Person is used as a source of funds is removed.
- In addition, the 5% contribution for loans with LTV ratios greater than 80% for which an unsecured loan that is an Employer Assisted Homeownership (EAH) Benefit is used as a source of funds is removed.
- Loan Prospector feedback messages should already be updated to reflect these changes.

Refinance changes

- **Removing the seasoning requirement for “no cash-out” refinance Mortgages:** The 120-day seasoning requirement for a “no cash-out” refinance when the Mortgage being refinanced is a purchase money transaction is removed.
- **Length of time Borrower is on the title for cash-out refinance Mortgages:** Currently for cash-out refinance Mortgages, at least one Borrower is required to have been on the title to the subject property for at least six months prior to the Note Date of the Mortgage, with certain exceptions. Effective immediately, these exceptions are revised as follows:
 - No Borrower is required to have been on the title to the subject property for at least six months prior to the Note Date if at least one Borrower on the cash-out refinance Mortgage either inherited or was legally awarded the subject property.
 - In a case where a Settlement/Closing Disclosure Statement is required, a trustee’s deed is acceptable if a Settlement/Closing Disclosure Statement was not used for the purchase transaction.
- **Cash out Refinancing:** The maximum amount of the cash-out refinance Mortgage when none of the Borrowers have been on the title to the subject property for at least six months is revised to reflect that the calculation must exclude any gift funds used to purchase the subject property. When determining the amount of the cash-out refinance Mortgage, any gift funds used to purchase the subject property must be deducted from the sum of the original purchase price and related Closing Costs, Financing Costs and Prepaids/Escrows.

Loan Prospector Mortgages with history of short sales

- The requirement that underwriting must manually apply the requirements for Manually Underwritten
- Mortgages with significant or derogatory credit information to Loan Prospector Accept Mortgages with evidence of a short sale on a credit report is removed. The LP decision is valid in regards to the short sale if the mortgage associated with the short sale is reported on the credit report (considered in the LP decision).
- If a mortgage involved with a short sale is not reported on the credit report (not considered in the LP decision) the loan is ineligible.

FREDDIE MAC CHANGES/ENHANCEMENTS COMING OCTOBER 26, 2015

For loans closed/purchased on or after October 26, 2015, CMG is aligning with the following Freddie Mac

Updates as announced in Freddie Mac Bulletin 2015-12:

- **Multiple financed properties.** For loans closed/purchased on or after October 26, 2015, the multiple financed property requirements are as follows:
- Increasing from four to six the maximum number of financed properties that the Borrower may own or be obligated on when the transaction is a second home or an Investment Property Mortgage
- Freddie Mac is also clarifying certain types of properties that should not be included in the count of financed properties.

Note: Cash out refinances are eligible if all Freddie Mac requirements are met.

- **Rental income / landlord history.** For loans closed/purchased on or after October 26, 2015, the requirement that the Borrower must have a two-year history of managing Investment Properties to use the income from a subject Investment Property or other Investment Properties owned by the Borrower for qualifying purposes is being removed.
- **Rent loss insurance.** For loans closed/purchased on or after October 26, 2015, the requirement that the Borrower must have six months of rent loss insurance to use rental income from the subject Investment Property for qualifying purposes is being removed.
- **Use of credit cards, cash advances or unsecured lines of credit as sources of Borrower Funds.** For loans closed/purchased on or after October 26, 2015, the requirements for using credit cards, cash advances and unsecured lines of credit to pay fees associated with the Mortgage application process will be updated. Freddie Mac will be permitting the option of either (1) verifying that the Borrower has sufficient funds to pay the charges or advances, or (2) including the payment for the amount charged or advanced in the monthly debt payment –to income ratio (both were previously required).
- **Sale or conversion of Primary Residence.** For loans closed/purchased on or after October 26, 2015 the requirements for loans for which the Borrower's current Primary Residence is pending sale, but the sale will not close prior to the closing of the new Mortgage, or being converted to a second home, or being converted to an Investment Property will be updated.

The additional reserves and rental income requirements for these loans are eliminated so that only the standard reserves and rental income requirements apply.

Additionally, the monthly payment amount can be excluded if the loan file contains

- an executed sales contract for the property pending sale. If the executed sales contract includes a financing contingency, the Mortgage file must also contain evidence that the financing contingency has been cleared or a lender's commitment to the buyer of the property pending sale; OR
- an executed buyout agreement that is part of an employer relocation plan where the employer/relocation company takes responsibility for the outstanding Mortgage(s). Must be fully executed with no contingencies.

Loan Prospector feedback messages will be updated by October 26, 2015 to reflect these changes.

Reference/Link: [Freddie Mac Bulletin 2015-12](#) [Freddie Mac Bulletin 2015-16](#)

BRIEF OVERVIEW OF FANNIE MAE CHANGES/ENHANCEMENTS COMING IN DEC. 2015

Preview of Fannie Mae Updates effective with DU Version 9.3 the weekend of December 12, 2015.

HomeReady Coming in December 2015 (MCM to be retired)

- New program requirements, including revised Homeownership Education and Housing Counseling updates. Watch for additional communication.
- **HomeReady** will be implemented in DU Version 9.3 the weekend of December 12, 2015 and is scheduled to be rolled to coincide with those dates.
- **MCM** loan casefiles created prior to December 12, 2015 can continue to be underwritten through DU Version 9.2 under the existing MCM requirements. Final date MCM loans must be closed/purchased for CMG will be announced in a future update.

High-Balance Mortgage Loan Eligibility

- Fannie Mae has aligned the eligibility of high-balance mortgage loans with Fannie Mae's standard eligibility requirements with LTV, CLTV, and HCLTV ratios up to a maximum of 95%. Many of the policy overlays that previously applied only to high-balance loans have been removed and a new policy has been implemented requiring all high-balance loans to be underwritten through DU.
- Notable policy revisions with this Guide update include:
 - 5% minimum borrower contribution no longer applies, allowing all borrowers to be eligible to use gifts, grants, and Community Seconds® to fund all required down payment and closing costs on one-unit principal residence transactions with LTV ratios greater than 80%;
 - field review of property requirement for loan amounts greater than \$625,500 with an LTV, CLTV, or HCLTV ratio greater than 80% has been removed;
 - appraisals no longer need to include two comparable sales from outside of the subject project when the loan is secured by a condominium; and
 - LTV, CLTV, and HCLTV ratio maximums for borrowers with 5-10 financed properties align with the requirements for loans subject to the general loan limits.
- The existing high-balance loan policy overlays that remain in place include:
 - a field review is required for properties valued at \$1,000,000 or more with an LTV, CLTV, or HCLTV ratio greater than 75%; and
 - all borrowers must have traditional credit.

These updates will be implemented in DU Version 9.3 the weekend of December 12, 2015.

Non-occupant Borrower Policies in Desktop Underwriter

- In an effort to simplify Fannie Mae's underwriting requirements and provide greater access to mortgage credit, DU will be updated to consider the income and liabilities of all borrowers on all principal residence mortgage transactions, including two- to four-unit properties. No separate calculation of the DTI ratio for the occupying borrower will be required, as the DTI ratio calculation will be based on the income and liabilities of all borrowers on the mortgage loan.

Effective Date: This update will be effective with DU Version 9.3 the weekend of December 12, 2015.

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

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