

BULLETIN #2017-55

TO: Distribution

DATE: October 25, 2017

RE: CMG Financial Correspondent Lending Updates

EFFECTIVE: As noted below

CMG FINANCIAL CORRESPONDENT LENDING UPDATES

Topics Covered in this Announcement:

- Conventional Conforming Updates and Clarifications
- Disaster Reminders: California Fires

CONVENTIONAL CONFORMING UPDATES AND CLARIFICATIONS

Summary: See below for details regarding conventional conforming updates and clarifications:

[Assets as a basis for repayment of obligations – Freddie Mac/LPA loans only](#)
[Restricted stock and restricted stock units- Freddie Mac/LPA Only](#)
[Appraisal Requirements- Freddie Mac/LPA only](#)
[New Condo Projects- Freddie Mac/LPA only](#)
[Gift Funds Clarification-Fannie \(DU\) and Freddie \(LPA\)](#)

These updates and clarifications can be applied immediately:

ASSETS AS A BASIS FOR REPAYMENT OF OBLIGATIONS – FREDDIE MAC/LPA LOANS ONLY

Freddie Mac has expanded the requirements of Guide Section 5307.1, formerly titled “Assets as a basis for Mortgage qualification.” The changes include, but are not limited to, the following:

- **New asset types**
 - Added depository accounts and securities as eligible asset types, subject to conditions which include, but are not limited to, the following:
 - at least one Borrower is 62 years old or older
 - the Borrower must be the sole owner of the assets, or if the assets are jointly owned, each owner must be a Borrower on the Mortgage and/or on the title to the subject property
 - the account, less any portion pledged as collateral for a loan or otherwise encumbered, must be accessible by the Borrower in its entirety as of the Note Date
 - account funds must not be subject to a withdrawal or other penalty, and
 - the lender must document the source of funds for any deposit exceeding 10% of the Borrower’s total eligible assets in depository accounts and securities, and verify that the deposit does not include gifts or borrowed funds, or reduce the eligible assets used to qualify the Borrower by the amount of the deposit
- **Asset calculation for establishing the debt payment-to-income ratio**
 - Removed the requirement that no more than 70% of the balance of an eligible asset be used as a basis for the debt-to-income ratio calculation. The following must be subtracted from the total amount of eligible assets :
 - funds required to be paid by the Borrower to complete the transaction (e.g., Down Payment and Closing Costs)

- any gift funds and borrowed funds, and
- any portion of the assets pledged as collateral for a loan or otherwise encumbered

Note: Any LPA conventional conforming loans using assets as a basis for repayment of obligations MUST have code H31 entered as an SFC.

RESTRICTED STOCK AND RESTRICTED STOCK UNITS – FREDDIE MAC / LPA ONLY

Employers increasingly include RS and RSU as a component of employee compensation. RS are grants of company shares which represent equity interest in the company. RSU are grants valued in terms of company shares that do not represent equity interest in the company. Both RS and RSU are subject to a restriction period during which recipients are not permitted access to granted shares until vesting requirements are met. Vesting requirements are based on varying criteria but the most common types are:

- Performance-based (e.g., a certain percentage of total granted shares vest based on individual or corporate performance), and
- Time-based (e.g., a certain percentage of total granted shares vest after a pre-determined period of employment) The determination of stability for RS and RSU income used to qualify must include analysis of changes in the company's stock price as well as past and future distributions detailed in a vesting schedule. If the YTD earnings are consistent with the previous year(s) earnings or trending upward, then the lender must use the applicable calculation method(s). If the earnings are not consistent (i.e., the value of vested shares distributed decreases substantially year-over-year), additional analysis is required and additional documentation may be necessary to determine income stability and develop an accurate calculation of qualifying income.

Asset Eligibility: Stock with limitations on its accessibility (e.g., restricted stock which has not vested and been distributed to the recipient) is **not** eligible.

APPRAISAL REQUIREMENTS – FREDDIE MAC / LPA ONLY

- High Balance Transactions – Freddie Mac is no longer requiring: (i) an appraisal field review report for high balance loans when the loan-to-value (LTV)/total LTV (TLTV)/Home Equity Line of Credit (HELOC) TLTV (HTLTV) ratio is greater than 75% and the value is \$1 million or greater (ii) the use of a lower value and (iii) the appraiser be qualified to perform appraisals without oversight or supervision. Loan Product Advisor has been updated to reflect this change.
- MLS Photos - Using multiple listing service photographs for comparable sales Previously, copies of MLS photographs could be used for comparable sales only if the original photographs could not be obtained. Additionally, an explanation was required by the appraiser as to why MLS photographs were being used. To provide flexibility and create efficiency in the appraisal and underwriting processes, we are removing these requirements and now allow clear electronic images, including copies of MLS photographs, to be used for comparable sales without an explanation from the appraiser.

NEW CONDO PROJECTS – FREDDIE MAC / LPA ONLY

- New Condominium Projects - revising the owner occupancy requirement to at least 50% of the total units in the project (or at least 50% of the sum of the subject legal phase and prior legal phases).
- HO-6 – Selling guide is updated to specify that an HO-6 unit owner policy is acceptable when the condominium homeowners association (HOA) master policy does not cover the unit or the improvements to the unit.

GIFT FUNDS CLARIFICATION – FANNIE (DU) AND FREDDIE (LPA)

CMG guidelines will be updated to reflect the following for verifying donor availability of funds and transfer of gift funds. The Correspondent lender must verify that sufficient funds to cover the gift are either in the donor's account or have been transferred to the borrower's account. Acceptable documentation includes the following:

- a copy of the donor's check and the borrower's deposit slip,
- a copy of the donor's withdrawal slip and the borrower's deposit slip,
- copy of the donor's check to the closing agent, or
- a settlement statement showing receipt of the donor's check.

When the funds are not transferred prior to settlement, the lender must document that the donor gave the closing agent the gift funds in the form of a certified check, a cashier's check, or other official check.

Effective Date: Updates and clarifications are effective immediately. CMG guidelines will be updated, as applicable, the week of October 23rd .

Links / Resources:

<http://www.freddiemac.com/singlefamily/guide/bulletins/pdf/bl1720.pdf>

<https://www.fanniemae.com/content/guide/selling/b3/4.3/04.html>

DISASTER REMINDER: CALIFORNIA FIRES

Summary: As previously announced in CMG's Bulletin 2017-54, FEMA has declared Individual Assistance for Disaster Declaration 4344 for the following California counties:

Butte, Lake, Mendocino, Napa, Nevada, Orange, Sonoma, Yuba

FEMA has NOT established an end date at this time.

As a reminder, all FHA loans will require a disaster inspection report after an end date is established by FEMA.

Links:

[CMG Disaster Policy](#)

<https://www.fema.gov/disaster/4344/designated-areas>

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

3160 Crow Canyon Road, Suite 400, San Ramon, CA. 94583 | 800.501.2001 | NMLS #1820 | www.cmgfi.com

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