
TO: Distribution

DATE: November 12,2020

**RE: CMG Financial Correspondent Lending
Updates 2020-78**

EFFECTIVE: As noted below

CMG FINANCIAL CORRESPONDENT LENDING UPDATES

Topics Covered in this Announcement:

- Fannie Mae & Freddie Mac Condo Updates- Resorts/Condotels/Transient Use
- FHA COVID-19 Related Reminders

FANNIE MAE & FREDDIE MAC CONDO UPDATES – RESORTS/CONDOTELS/TRANSIENT USE

Summary: Fannie Mae and Freddie Mac are clarifying some of their requirements for project standards. Specifically, they are providing additional guidance concerning

- condotel ineligibility (see details below),
- the proper treatment of projects subject to pre-litigation activities, and
- projects subject to recreational leases and mandatory memberships.

IMPORTANT: Resort areas – ski resorts, coastal resorts, etc. – these requirements must be manually applied and may impact projects previously “approved”. Condo Project Manager™ (CPM™) will not be updated at this time, so lenders must manually apply these changes, as applicable.

Effective Date: *These changes apply to current and future project approvals so lenders must also confirm that current approved projects comply with new requirements for all applications dated on and after Dec. 1, 2020. In addition, regardless of application date, all loans not meeting the revised requirements must be closed/purchased by January 1st, 2021.*

See below for details:

- Fannie Mae Bulletin: [SEL 2020-06](#)
- Freddie Mac Bulletin: [2020-43](#)

The agencies have added some supplemental requirements to their list of Ineligible Properties criteria related to identifying condotels, including projects that are transient in nature, offer hotel-type services, voluntary rental pooling, or sharing of revenue from short-term rentals and related activities. They have also added back language previously removed from the Guide describing common condotel “red flags.” It is increasingly common that state statutes require conflicting parties to enter mediation or arbitration prior to litigation to avoid the expenses and time associated with formal legal proceedings.

They are reminding lenders that they require lenders to apply their standard Guide policies concerning litigation when the project is engaged in pre-litigation activities. This includes mediation or arbitration when there is a reasonable expectation that the activities will proceed to litigation. Mortgage loans for units in projects that are involved in litigation

are generally not eligible. Finally, projects with amenities provided through a recreational lease agreement are ineligible. They have added a list of "red flags" to the Guide to help lenders determine when projects may be subject to these arrangements. In addition to the requirements above, any project with one or more of the following characteristics is ineligible. The project

- is primarily transient in nature;
- offers hotel type services (including those offered by or contracted through the HOA or management company) or characteristics such as registration services, rentals of units on a daily or short-term basis, daily cleaning services, central telephone service, central key systems and restrictions on interior decorating;
- is a conversion of a hotel (or a conversion of a similar type of transient housing) unless the project was a gut rehabilitation and the resulting condo units no longer have the characteristics of a hotel or similar type of transient housing building;
- is subject to voluntary rental-pooling, revenue, profit or commission sharing agreements with the HOA or management company, or similar agreements that restrict the unit owner's ability to occupy the unit such as blackout dates and occupancy limits to assure an inventory of units for rent on a frequent basis. This may include daily, weekly, monthly or seasonal restrictions;
- is professionally managed by a hotel or resort management company that also facilitates short term rentals for unit owners or projects with management companies that are licensed as a hotel, motel, resort, or hospitality entity;
- is deemed to be ineligible under Freddie Mac's requirements because of condo hotel, resort, transient or short-term rental activity;
- has a legal or common name that contains hotel, motel, or resort, unless the use of hotel, motel, or resort is a reference to a historical use of the building and not reflective of its current use as a residential condo or co-op project;
- is marketed as a hotel, motel, resort or investment opportunity; or
- has obtained a hotel or resort rating for its hotel, motel, or resort operations through hotel ratings providers including, but not limited to, travel agencies, hotel booking websites, and internet search engines.

The following criteria are examples of some common red flags. The lender should perform additional due diligence of the project when any of these characteristics are present:

- more than 75% or more of the units are owned as investment and second home occupancy - especially when the loan transaction is not a principal residence transaction;
- units that do not contain full-sized kitchen appliances;
- advertisements for daily or short-term rental rates;
- franchise agreements;
- location of the project in a resort area;
- units that are less than 400 square feet;
- amenities that are common in hotels or resorts including spa services, concierge services, rentals of recreational equipment or amenities, childcare services for short-term renters, scheduled social or entertainment activities for short-term renters, airport shuttles, ski lift shuttles or ski lift and trail passes, or other vacation amenities and packages; or
- interior doors that adjoin different units.

FHA COVID-19 RELATED REMINDERS

Summary: Please see below for some top FHA COVID-19 related reminders:

- FHA requires manual underwriting of new loans for borrowers who are selling their current homes and do not make three payments post forbearance. i.e., FHA is requiring lenders to "manually underwrite" new loans for all borrowers including those who have paid off their existing mortgages "if the borrower has made less than 3 consecutive monthly housing payments post forbearance"
- Desktop appraisals are no longer permitted (ML 2020-37, any FHA desktop appraisal must have been completed no later than 10/31/2020)
- Mortgages with rental income being used to qualify a borrower: Previously, FHA released specific COVID-19 related requirements where a borrower is qualifying utilizing rental income that applies to each property generating rental income.
 - Reduce the effective income associated with the calculation of rental income by 25%, or
 - Verify 6 months PITI reserves, or

- Verify the borrower has received the previous 2 months rental payments as evidenced by borrower's bank statements showing the deposit. (This option is applicable only for borrowers with a history of rental income from the property – history must be reported on most recently filed tax return).
- HFA/Bond for Retail – Underwriting may require a VOR for TOTAL approved loans, especially when high risk factors are present such as payment shock, limited compensating factors, low credit scores (below 640).

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