TO: Distribution

RE: CMG Financial Correspondent Lending Updates

DATE: November 20, 2019

EFFECTIVE: As noted below

CMG FINANCIAL CORRESPONDENT LENDING UPDATES

Topics Covered in this Announcement:

- Reminder VA Circular 26-19-23: Blue Water Navy Bill – Reminders Funding Fee & “Loan Limit”
- Fannie Mae Rental Income Changes Coming in December

REMINDER VA CIRCULAR 26-19-23: BLUE WATER NAVY VIETNAM VETERANS ACT OF 2019

Summary: Earlier this year, VA published a circular that provided guidance on the implementation of the Blue Water Navy law. The circular provides examples and outlines that full entitlement is it pertains to the removal of the “loan limit”. As a reminder, beginning with VA loans closed on and after January 1, 2020:

- For Veterans with full entitlement, the maximum amount of guaranty for a loan above $144,000 is 25 percent of the loan amount.
- If a veteran’s entitlement is not restored, the maximum amount of guaranty entitlement is 25% of the Freddie Mac limit, reduced by the amount of entitlement previously used (not restored) by the Veteran.
- The Act & Circular do not change the maximum amount of guaranty entitlement available to Veterans for loans equal to or less than $144,000 regardless of the Freddie Mac limit.

Restoring entitlement for cash-out refinance of active VA-guaranteed loans

- Lenders may restore entitlement for a cash-out refinance of active VA-guaranteed loans when ordering or correcting the Certificate of Eligibility (COE).
- Step-by-step instructions on how to obtain a cash-out refinance conditional COE and/or correct a COE are located in the links can be found at https://www.benefits.va.gov/homeloans/lenders.asp, Lender’s Certificate of Eligibility (COE) Tutorial, and Correct COE Quick Reference. The cash-out refinance restoration condition must be shown on the COE for the entitlement to be restored.

Funding Fee Changes

In addition, the Circular confirms the Funding Fee changes previously announced are scheduled to take effect for loans closed in 2020:
Effective Date / Action to Take:

- VA will not be implementing the removal of the no downpayment cap until 2020 meaning any loans closed in 2019 will not be eligible for the higher loan limits with no downpayment.
- Any loans scheduled to close in 2020 must have the correct funding fee disclosed.


### FANNIE MAE RENTAL INCOME CHANGES COMING IN DECEMBER

Summary: Fannie Mae is implementing new requirements for determining when rental income can be used for qualifying purposes. These changes are intended to support sustainable homeownership for borrowers purchasing an investment property without a prior history of managing rental properties. This new policy may also help to address certain risks, such as reverse occupancy fraud. To determine the amount of rental income from the subject property that can be used for qualifying purposes when the borrower is purchasing a two- to four-unit principal residence or one- to four-unit investment property, the lender must consider the following:

<table>
<thead>
<tr>
<th>If the borrower...</th>
<th>Then for qualifying purposes...</th>
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<tr>
<td>currently owns a principal residence (or has a current housing expense), and has at least a one-year history of receiving rental income or documented property management experience</td>
<td>there is no restriction on the amount of rental income that can be used.</td>
</tr>
<tr>
<td>currently owns a principal residence (or has a current housing expense), and has less than one-year history of receiving rental income or documented property management experience</td>
<td>• for a principal residence, rental income in an amount not exceeding the PITIA of the subject property can be added to the borrower’s gross income, or • for an investment property, rental income can only be used to offset the PITIA of the subject property.</td>
</tr>
<tr>
<td>does not own a principal residence, and does not have a current housing expense</td>
<td>rental income from the subject property cannot be used.</td>
</tr>
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Note: This policy does not apply to HomeReady loans with rental income from an accessory unit.

The lender must establish a history of property management experience by obtaining one of the following:

- The borrower’s most recent signed federal income tax return, including Schedules 1 and E. Schedule E should reflect rental income received for any property and Fair Rental Days of 365;
- If the property has been owned for at least one year, but there are less than 365 Fair Rental Days on Schedule E, a current signed lease agreement may be used to supplement the federal income tax return;
- A current signed lease may be used to supplement a federal income tax return if the property was out of
service for any time period in the prior year. Schedule E must support this by reflecting a reduced number of days in use and related repair costs. Form 1007 or Form 1025 must support the income reflected on the lease.

Reminder- CMG Standards for First Time Homebuyers Using Rental Income (no change):
First Time Homebuyers presenting a strong financial picture must meet the following requirements to qualify with rental income in addition to agency requirements:

- Have a strong established credit history – 3+ years of history with normal credit card and auto payment debt showing a clear ability to manage debt load
- Provide 12 months cancelled checks for housing history – no live with parents or family (having a housing payment history is also a part of the Fannie update)
- No gifts allowed
- 6 months reserves in addition to AUS requirements
- Borrower must have a strong employment history with 2+ years of stable, strong employment/income

Link (Fannie Mae Selling Guide is already updated):
https://www.fanniemae.com/content/guide/selling/b3/3.1/08.html

Effective Date: The updated requirements will apply to new loan casefiles submitted to DU on or after the weekend of December 7, 2019.