



TO: Distribution

DATE: November 27, 2019

RE: CMG Financial Correspondent Lending Updates

EFFECTIVE: As noted below

CMG FINANCIAL CORRESPONDENT LENDING UPDATES

Topics Covered in this Announcement:

- Blue Water Navy Vietnam Veterans Act of 2019-VA Issues Updated Circular
- Reminder: Upcoming Fannie Changes to Rental Income
- Flex Jumbo 6400 Series Guideline Clarification

BLUE WATER NAVY VIETNAM VETERANS ACT OF 2019- VA ISSUES UPDATED CIRCULAR

Summary: VA issued Circular 26-19-30 with two exhibits. This circular finalizes VA guidance regarding the Blue Water Navy Vietnam Veterans Act of 2019 and addresses the three significant impacts to lending to veterans:

- Maximum amount of entitlement available to Veterans / the maximum guaranty of loans in excess of \$144,000
- the VA loan (funding) fee table, and Freddie Mac limit, reduced by the amount of entitlement previously used (not restored) by the Veteran.
- an additional waiver of the VA funding fee (Purple Heart recipients).

Effective Date: *Loans closing on and after January 1, 2019*

Link to VA Circular: https://www.benefits.va.gov/homeloans/documents/circulars/26_19_23.pdf
https://www.benefits.va.gov/homeloans/documents/circulars/26_19_30_exhibita.pdf
https://www.benefits.va.gov/homeloans/documents/circulars/26_19_30_exhibitb.pdf

REMINDER: UPCOMING FANNIE CHANGES TO RENTAL INCOME

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:**

If the borrower...	Then for qualifying purposes...
<ul style="list-style-type: none"> 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 <p>there is no restriction on the amount of rental income that can be used.</p>	<p>there is no restriction on the amount of rental income that can be used.</p>
<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> 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.
<ul style="list-style-type: none"> does not own a principal residence, and does not have a current housing expense 	<p>rental income from the subject property cannot be used.</p>

Note: This policy does not apply to HomeReady loans with rental income from an accessory unit.

Note: **This does not represent a change to the existing requirements when using rental income from a departing residence. Rather, it applies to a borrower that is purchasing a two- to four-unit principal residence or one- to four-unit investment property.**

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; or
- 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.*

FHA CASHOUT & LPA (TOTAL SCORECARD) MESSAGING UPDATE

Summary: For TOTAL Scorecard loans, effective December 12, 2019, a Federal Housing Administration (FHA) feedback message will be added to align with FHA Mortgagee Letter 2019-11. The letter reduces the current maximum loan-to-value (LTV) and combined maximum loan-to-value (CLTV) percentages to 80 percent on cash-out refinance mortgages.

For FHA loans underwritten with TOTAL Scorecard through LPA, loans must continue to be manually checked for eligibility. As a reminder, the restriction to cap LTV/CLTV at 80% became effective for case numbers assigned on or after September 1, 2019.

Effective Date: *As noted above*

FLEX JUMBO 6400 SERIES

Summary: **The 6400 series guidelines are updated to clarify that tax returns and transcripts are require for all borrowers, including W2 wage earners.**

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



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