



# CMG FINANCIAL

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E x p e r i e n c e   E x t r a o r d i n a r y

## Conventional Conforming Guidelines

All CMG Financial Guidelines will follow Fannie Mae (FNMA) and Freddie Mac (FHLMC) Guidelines (The Selling Guides) in addition to CMG Financial overlays, when applicable.

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# Table of Contents

## **Part A – Borrower Eligibility**

### A-1 – Citizenship or Residency Status

- Required Identification
- Permanent Resident Alien
- All Non-US Citizen Borrowers
- Non-Permanent Resident Alien

### A-2 – Eligible Borrowers

- Social Security Number
- Excluded Parties Search (LDP/GSA)

### A-3 – Ineligible Borrowers

### A-4 – Power of Attorney

- General Requirements
- Signature Requirements

### A-5 – Living Trust (Inter vivos Revocable Trust)

## **Part B – Property Ownership Limitations**

### B-1 – Multiple Loans to One Borrower

### B-2 – Multiple Financed Properties

- Financed Properties Abroad
- Unit Limitation

## **Part C – Occupancy**

### C-1 – Primary Residence

### C-2 – Second Homes

### C-3 – Investment Properties

- First Time Homebuyers

## **Part D – Underwriting Documentation**

### D-1 – Age of Documents

- Table D-1-A: Document Age Requirements

### D-2 – Acceptable Documents

- Fax Copies
- Internet Documentation
- Direct Written Verification
- Additional Documentation

D-3 – Electronic Signatures

D-4 – LoanSafe Fraud Manager™

**Part E – Application**

E-1 – Application

Requirements

NMLS

E-2 – Process to Add or Remove Borrowers

Adding Borrowers

Removing Borrowers

Exceptions

**Part F – Credit Analysis**

F-1 – Credit Report

F-2 – Credit Score

Credit Score Selection

Qualifying Score Selection

F-3 – Credit History

F-4 – Credit Bureau Analysis

Bankruptcy or Foreclosure

Credit Risk Score

Fraud Alert

F-5 – Credit Inquires/Attestation

F-6 – Non-Traditional Credit

**Part G – Evaluating Income**

G-1 – Evaluating Income

G-2 – Verbal Verification of Employment

Timing

Salaried Borrowers

Self-Employed Borrowers

1099 Employee/Independent Contractor

Military

Seasonal Employment

Temporary Leave

G-3 – Tax Transcript Policy

Conventional Loan Limits

High Balance Loan Limits

When Transcripts Are Not Available

Transcript Review

G-4 – Stable Monthly Income

Length of Employment

Income Documentation

G-5 – Non-Taxable Income

G-6 – Projected Income

G-7 – Salary, Commission, and Bonus

Salary & Wages

Determining the Need for Federal Income Tax Returns

Overtime, Second Jobs, or Additional Job

Bonus

Commission Income

G-8 – Part Time, Second Job, and Seasonal Income

G-9 – Military Income

G-10 – Rental Income

Table G-10-A: Documenting Rental Income from the Subject Property

G-11 – Other Sources of Income

Alimony or Child Support

Auto-Allowance

Capital Gains

Disability Income / Borrower(s) with a Temporary Reduction in Income / Temporary Leave

Foreign Income

Foster Care Income

Interest and Dividend Income

Notes Receivable

Retirement, Government Annuity, and Pension Income

Social Security Income (SSI)

Tip Income

Trust Income

Unemployment Benefits

VA Benefits Income

G-12 – Self-Employment Income

Income or Loss Reported on Schedule C

Income or Loss Reported on Schedule F

Evaluating Business Tax Returns

Returns for an S-Corporation

Returns for a Corporation

Evaluating Profit and Loss Statements

G-13 – Ineligible Income Sources

**Part H – Asset Assessment**

H-1 – Asset Assessment

H-2 – Depository Accounts

Large Deposits

H-3 – Sales Contract Deposit

Verification of Source of Funds

Documentation for Receipt of Deposit

H-4 – Gift Funds

Acceptable Donors

Documentation Requirements

Verifying Donor Availability of Funds and Transfer of Gift Funds

Table H-4-A: Minimum Borrower Contribution Requirements

H-5 – Gift of Equity

Acceptable Donors

Documentation Requirements

H-6 – Retirement Accounts

H-7 – Stocks, Bonds, and Mutual Funds

Table H-7-A: Determining the Value of Stocks, Bonds, and Mutual Funds

H-8 – Employer Assistance

Forms of Employer Assistance

Documentation Requirements

H-9 – Anticipated Sales Proceeds

Determining the Amount of Net Proceeds

Table H-9-A: Net Proceeds Calculation

Sales Proceeds Needed for Down Payment and Closing Costs

Corporate Relocation Plans

H-10 – Sale of Personal Assets

Documentation Requirements

H-11 – Rent Credit (Lease Purchase or Option to Purchase)

H-12 – Business Accounts

H-13 – Cash on Hand

**Part I – Liability Analysis**

I-1 – Debt-to-Income Ratio

## Pay Down of Debt

### I-2 – Monthly Debt

- Alimony/Child Support/Separate Maintenance Payments
- Assumption with No Release of Liability
- Authorized User Accounts
- Business Debt in a Borrower's Name
- Court Order Assignment of Debt
- Copy of the Court Order or Divorce Decree
- Co-Signed Loans
- Deferred Payment Accounts
- Home Equity Lines of Credit (HELOC)
- Installment Debt
- Lease Payments
- Loans Secured by Retirement Savings Plans
- Open 30-Day Accounts
- Revolving Debt
- Student Loans
- Depreciation Rates by Tax Year
- Qualifying Impact of Other Real Estate Owned

## **Part J – Property Eligibility**

### J-1 – Eligible Collateral

### J-2 – Ineligible Collateral

### J-3 – Manufactured Homes

### J-4 – Leasehold Estates

- Option to Purchase Fee Interest
- Table J-4-A: Land Purchase Price Requirements for Option to Purchase Fee Interest
- Appraisal Requirements

### J-5 – Appraisal Documentation

- USPAP Compliance
- Appraisal Review Process
- Approved AMCs
- Rapid Appreciation

### J-6 – Appraisal Forms and Exhibits

- Table J-6-A: Appraisal Forms and Exhibits
- Exhibits for Appraisals with Interior and Exterior Property Inspections

### J-7 – Appraisal Transfer

### J-8 – Appraisal Assessment

J-9 – Appraisal Repairs

J-10 – Properties Subject to Age Restrictions

- Government Housing Programs
- Age Restrictions – 62 Years of Age or Older
- Age Restrictions – Any Age Restriction
- Required Documents for Age Restricted Properties
- Additional Appraisal Considerations: High Balance Transactions

**Part K – Geographic Restrictions**

K-1 – Geographic Restrictions

**Part L – Disaster Policy**

L-1 – General Information

**Part M – Private Mortgage Insurance**

M-1 – General Information

M-2 – Approved Mortgage Insurance (MI) Companies

M-3 – Standard Coverage

Table M-3-A: MI Standard Coverage

M-4 – Monthly Premium

M-5 – Single Premium

- Maximum GLTV (When Financed Premium Exists)
- Maximum Loan Amount
- Program Eligibility

M-6 – Agency Paid Mortgage Insurance

**Part N – Property Insurance**

N-1 – Escrows for Taxes and Insurance

Table N-1-A: Escrow Waiver Criteria

N-2 – Hazard Insurance

- Agent Rating Requirements
- Other Acceptable Insurance Underwriters
- General Hazard Insurance Coverage – 1-4 Family Dwellings
- Coverage Requirement
- Deductible Amount
- Required Coverage for PUDs or Condos
- Table N-2-A: Attached Condo Requirements
- Table N-2-B: PUD and Detached Condo Requirements
- Special Endorsements
- Special Endorsements for Condo Projects Only

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Information in these guidelines is for credit policy guidance only and is not a complete representation of CMG Financial (NMLS #1820) Lending Policies. Information is accurate as of the date of publishing and is subject to change without notice. The Guidelines outlined apply to Agency loans submitted to DU or LP. In addition to applying these CMG-specific overlays, all loans submitted to DU/LP must comply with the DU/LP Findings and Fannie Mae/Freddie Mac requirements. To verify our state licenses, please log onto the following websites: <http://www.cmgfi.com/licensing.php> and [www.nmlsconsumeraccess.org](http://www.nmlsconsumeraccess.org)

Table N-2-C: Requirements for Name Insured

Loss Payee

## N-3 – Flood Insurance

Acceptable Flood Insurance Policies

Maximum Available Through NFIP

Required Coverage on a 1-4 Unit Dwelling

Required Coverage on Attached Condos

Deductibles

## **Part O – Title Insurance**

O-1 – General Requirements

O-2 – Title Company Requirements

O-3 – Closing Agent Requirements

O-4 – Closing Attorney Requirements

## **Part Z – Recent Updates / 90 Day Lookback**



## Part A – Borrower Eligibility

### A-1 – Citizenship or Residency Status

Borrowers must be US Citizens or document their non-US Citizen status using the following guidelines:

#### **Required Identification**

All borrowers are required to have a valid driver's license, state issued identification or passport on all transactions.

#### **Permanent Resident Alien**

Individuals granted permanent residence status in the U.S. also includes refugees and others seeking political asylum. Documentation is commonly referred to as a 'Green Card'. Permanent Resident Aliens must provide any of the following documents to validate acceptable status:

- Permanent Resident Card (USCIC form I-551)
  - May be issued as a conditional right to reside for individuals seeking residency through marriage to a US Citizen/ Permanent Resident Alien or based on a financial investment in a US business.
  - These cards have an expiration date and are valid for two years
  - At the end of two years the individual must apply for an unconditional right to reside or risk losing their permanent resident status.
  - Cards due to expire within 90 days must be accompanied by a copy of the USCIS form I-751 (Petition to Remove Conditions on Residence) or USCIS form I-829 (Petition by Entrepreneur to Remove Conditions) filing receipt.
  - Cards may be issued without conditions and are valid for 10 years.
  - Cards that are due to expire within six months must be accompanied with a copy of the USCIS form I-90 (Application to Replace Permanent Resident Card) filing receipt.
- Unexpired Foreign Passport
  - Must contain an unexpired stamp reading "Processed for I-551 Temporary Evidence of Lawful Admission for Permanent Residence. Valid until mm-dd-yy."

#### **All Non- U.S. Citizen Borrowers**

Non US Citizens must have current acceptable documentation from the Bureau of Citizenship and Immigration Services (BCIS) (formerly the Immigration and Naturalization Service or INS) within the Department of Homeland Security, evidencing the person's legal residency status in the United States.

#### **Non-Permanent Resident Alien**

Non-permanent resident aliens are individuals seeking temporary entry to the U.S. for a specific purpose, either business or pleasure. This group may include intra-company transferees, temporary workers/trainees, visitors for business or pleasure, students, etc. Various types of visa classification documentation will apply. Refer to the BCIS/INS for specifics at <http://www.uscis.gov/portal/site/uscis>

All non-permanent resident aliens must provide evidence of an acceptable visa. Acceptable visas include but are not limited to E-1, H-1B, H-2B, H-3, L-1, G-series and O-1. Non-permanent residents, who are permitted employment and meet the guidelines listed below, are eligible for primary or secondary residence financing only. Verification the borrower has all of the following is required:

- A valid Social Security Number
- Documentation to support that the borrower is eligible to work in the US as evidenced by an unexpired work authorization document issued by the United States Citizenship and Immigration Services (USCIS).

- If the authorization for temporary residency status will expire within one year and a prior history of residency status renewals exist, continuation may be assumed. If there are no prior renewals, the likelihood of renewal must be determined, based on information from the USCIS.
- Borrowers sponsored by a specific employer do not need an EAD. A valid passport, a letter from the employer/sponsor and an I-94 form proving they may work in the US is acceptable.
- A social security card may not be used as evidence of eligibility of employment

All non-permanent resident aliens must have a minimum two-year history of credit and employment in the U.S. or another country.

Note: EAD C08 status is not eligible.

Category C33 work status - CMG will permit DACA borrowers meeting the requirements noted below:

- Loan must be underwritten with DU
- Underwriter must select Fannie Only as the investor designation in Byte
- Valid EAD Card
- Evidence of at least two renewals
- Valid social security number
- Valid state issued ID
- CMG minimum credit score requirements and all other guideline requirements must be met
- Established credit, employment and income history in the US.

In addition, for loan to value ratios >80%, MI company requirements and eligibility must be met.

As always, CMG will look at the specific circumstances of the individual's employment to determine whether our continuity of income representation and warranty is met. *If there is a change to the ability of DACA recipients to renew their status, thus affecting continuance of income and employment, then the ability to lend to these borrowers will be impacted.*

## A-2 – Eligible Borrowers

### **Social Security Number**

All borrowers must have valid and verifiable Social Security Numbers. Other forms of taxpayer identification are not allowed.

### **Excluded Parties Search (LDP/GSA)**

- CMG loans require confirmation that companies or individuals involved in the origination or underwriting of a mortgage transaction are not on the General Services Administration (GSA) excluded party list or the HUD Limited Denial Participation (LDP). Refer to the CMG Policies for requirements regarding exclusionary lists: [Seller Resources](#).

## A-3 – Ineligible Borrowers

- Loans with title or interest held in various forms/legal entities such as Life Estates, Non-Revocable Trusts, Guardianships, LLC's, Corporations or Partnerships are not eligible. See product guide for full details.
- Individuals applying for a loan that will not take title are considered guarantors or co-signers. Guarantors or co-signers are ineligible when LTV/CLTV/HTLTV exceeds 95% (unless expressly permitted by agency). Co-signors may not have an interest in the property sales transaction, such as the property seller, the builder, or the real estate broker.

- Applicants possessing diplomatic status are ineligible.
- Foreign Nationals are individuals who have no lawful residency status in the U.S. are not considered to be non-permanent resident aliens and are not eligible for financing.
- Borrowers with Diplomatic Immunity
- Corporations/LLC's
- Foreign Nationals
- Non-Revocable *Inter vivos* Trust
- Partnerships

## A-4 – Power of Attorney

### General Requirements

Only a special/limited Power Of Attorney (POA) that is specific to the subject loan transaction can be accepted. Durable/general POAs are allowed only for court-appointed guardians with unlimited powers over the ward's affairs and must be accompanied by appointing documents.

Initial 1003 and all initial disclosures must be signed without POA. All closing documents may be signed by Attorney In Fact if POA is eligible and approved for use by underwriting.

POAs are not permitted on cash-out refinance transactions or Texas Section 50(a)(6) mortgage loans.

If no borrowers are executing loan documents in person in the presence of a notary, the attorney-in-fact must be either (a) the borrower's relative or (b) the borrower's attorney-at-law.

The following guidance must be followed when evaluating a POA for eligibility:

- The POA cannot be a party to the transaction except where the POA is the coborrower
- All POAs need to be specific to the transaction with
  - Property address
  - Legal description
  - Transaction type
- The POA must be on the proper form and drawn in accordance with applicable state laws and be acceptable to the recording agent in the local jurisdiction.
- The POA is in effect (the expiration date, if any, has not passed and the POA has not been revoked).
- The POA clearly defines the agent
- The POA grants to the agent, the authority to enter into a real estate transaction and mortgage real property
- The POA does not contain any blanks
- The principal is the same person as shown on the loan application
- The agent's identity is verified and documented in the loan file
- The POA has been, or will be, recorded prior to the recording of the Deed of Trust/Mortgage. If recorded simultaneously, the POA must be recorded first.

### Signature Requirements

Documents executed by the attorney-in-fact must include the principal's name, the agent's name, and the agent's capacity (attorney-in-fact) in the signature. The agent's capacity (attorney-in-fact) must be written out in its entirety; abbreviations are not acceptable (AIF, POA, etc.). Additionally, the same information should be typed on the documents. Examples include:

Signature / Document Typed	
<i>Jane Doe by John Smith, Attorney-in-Fact</i>	<i>Jane Doe by John Smith, her attorney in fact</i>
Jane Doe by John Smith, Attorney-in-Fact	Jane Doe by John Smith, her attorney in fact
<i>Jane Doe by John Smith as attorney in fact</i>	<i>Jane Doe by John Smith as her attorney in fact</i>
Jane Doe by John Smith as attorney in fact	Jane Doe by John Smith as her attorney in fact
<i>Jane Doe by her attorney in fact John Smith</i>	<i>Jane Doe by attorney in fact John Smith</i>
Jane Doe by her attorney in fact John Smith	Jane Doe by attorney in fact John Smith

## A-5 – Living Trust (Inter vivos Revocable Trust)

An inter vivos revocable trust is allowed provided it is established by one or more natural persons, solely or jointly. The primary beneficiary of the trust must be the individual(s) establishing the trust.

If the trust is established jointly, there may be more than one primary beneficiary as long as the income or assets of at least one of the individuals establishing the trust will be used to qualify for the mortgage.

The trustee(s) must include either:

1. The individual establishing the trust (or at least one of the individuals, if there are two or more) or
2. An institutional trustee that customarily performs trust functions in and is authorized to act as trustee under the laws of the applicable state.

The trustee(s) must have the power to mortgage the security property for the purpose of securing a loan to the party (or parties) who are the borrower(s) under the mortgage or deed of trust note.

## Part B – Property Ownership Restrictions

### B-1 – Multiple Loans to One Borrower

Borrowers are limited to four (4) loans or one million dollars (\$1,000,000) total in loans funded/purchased by CMG. Jumbo loans are excluded from loan amount limit, but still count towards the aggregate total of loans with CMG.

### B-2 – Multiple Financed Properties

- DU and LP are unable to determine the number of financed properties for a given borrower. It is incumbent upon the underwriter to determine the number of financed properties and apply additional standards where appropriate.
- For a primary residence there is not a limit on the number of financed properties a borrower may own.
- Primary Residence - DU & LP Loans: For Primary residences there is no limit to the number of properties financed/owned by the borrower.
- Second Homes & Investment Properties:
  - Second Homes & Investment Properties:
    - **LPA Loans:**
      - For Second Homes and Investment Properties, the maximum number of financed properties is ten (10). When the number of financed properties is greater than six the following apply:
        - The mortgage must be a Loan Product Advisor Mortgage with a Risk Class of Accept, and
        - Have a minimum Indicator Score of 720, and
        - The lender must verify reserves of eight months of the monthly payment on each additional second home and/or 1- to 4-unit Investment Property that is financed and on which the Borrower is obligated.
      - Investment Property Mortgages made to Borrowers who own more than one financed Investment Property are eligible only for the following:
        - An eligible fixed-rate, level-payment Mortgage, or
        - A 7/1 or 10/1 ARM
      - Simultaneous Second Home or Investment Property Transactions (LPA). If a lender is processing multiple second home or investment property applications simultaneously, the same assets may NOT be used to satisfy the reserve requirements for both mortgage applications. Reserves are cumulative for multiple applications.
    - DU Loans:
      - Limits on the Number of Financed Properties
        - The financed property limit
          - applies to the number of one- to four-unit residential properties where the borrower is personally obligated on the mortgage(s);
          - applies to the total number of properties financed, not to the number of mortgages on the property or the number of mortgages sold to Fannie Mae;
          - includes the borrower's principal residence if it is financed; and
          - is cumulative for all borrowers (though jointly financed properties are only counted once).
        - The following property types are not subject to these limitations, even if the borrower is personally obligated on a mortgage on the property:

- commercial real estate,
  - multifamily property consisting of more than four units,
  - ownership in a timeshare,
  - ownership of a vacant lot (residential or commercial), or
  - ownership of a manufactured home on a leasehold estate not titled as real property (chattel lien on the home).
- Examples — Counting Financed Properties
    - The borrower is personally obligated on mortgages securing two investment properties and the co-borrower is personally obligated on mortgages securing three other investment properties, and they are jointly obligated on their principal residence mortgage. The borrower is refinancing the mortgage on one of the two investment properties. Thus, the borrowers have six financed properties.
    - The borrower and co-borrower are purchasing an investment property and they are already jointly obligated on the mortgages securing five other investment properties. In addition, they each own their own principal residence and are personally obligated on the mortgages. The new property being purchased is considered the borrowers' eighth financed property.
    - The borrower is purchasing a second home and is personally obligated on his or her principal residence mortgage. Additionally, the borrower owns four two-unit investment properties that are financed in the name of a limited liability company (LLC) of which he or she has a 50% ownership. Because the borrower is not personally obligated on the mortgages securing the investment properties, they would not be included in the property count and the result is only two financed properties.
    - The borrower is purchasing and financing two investment properties simultaneously. The borrower does not have a mortgage lien against his or her principal residence but does have a financed second home and is personally obligated on the mortgage, two existing financed investment properties and is personally obligated on both mortgages, and a financed building lot. In this instance, the borrower will have five financed properties because the financed building lot does not need to be included in the property count.
  - Minimum Credit Score & Applying the Multiple Financed Property Policy to DU Loan Casefiles
    - If the borrower is financing a second home or investment property that is underwritten through DU, the maximum number of financed properties the borrower can have is ten. If the borrower will have one to six financed properties, Fannie Mae's standard eligibility policies apply (for example, LTV ratios and minimum credit scores). If the borrower will have seven to ten financed properties, the mortgage loan must have a minimum representative credit score of 720; all other standard eligibility policies apply.
  - **Reserve Requirements:** Additional reserve requirements apply based on the number of financed properties the borrower will have. The borrower must have sufficient assets to close after meeting the minimum reserve requirements.
  - Calculation of Reserves for Multiple Financed Properties
    - If the borrower owns other financed properties additional reserves must be calculated and documented for financed properties other than the subject property and the borrower's principal residence. The other financed properties reserves amount must be determined by applying a specific percentage to the aggregate of the outstanding unpaid principal balance (UPB) for mortgages and HELOCs on these other financed properties. The percentages are based on the number of financed properties:
      - 2% of the aggregate UPB if the borrower has one to four financed properties,
      - 4% of the aggregate UPB if the borrower has five to six financed properties, or
      - 6% of the aggregate UPB if the borrower has seven to ten financed properties (DU only).
    - The aggregate UPB calculation does not include the mortgages and HELOCs that are on

- the subject property,
  - the borrower's principal residence,
  - properties that are sold or pending sale, and
  - accounts that will be paid by closing (or omitted in DU on the online loan application).
- **Refer to Fannie Mae Selling Guide for examples:**  
<https://www.fanniemae.com/content/guide/selling/b3/4.1/01.html>
  - Simultaneous Second Home or Investment Property Transactions
    - If a lender is processing multiple second home or investment property applications simultaneously, the same assets may be used to satisfy the reserve requirements for both mortgage applications. Reserves are not cumulative for multiple applications.
  - Example: A lender is simultaneously processing two refinance applications for two investment properties owned by the borrower. The application for property A requires reserves of \$5,000. The application for property B requires reserves of \$10,000. Because the reserves are covering the same properties, the lender does not have to verify \$15,000 in reserves, but only those required per each application.



## **Financed Properties Abroad**

For borrowers who have financed properties abroad, the property AND mortgage payment must be counted in the total amount of financed properties.

## **Unit Limitation**

Conventional loans are limited to no more than four (4) units within the subject property.

## Part C – Occupancy

Owner Occupied loans, second homes, and investment properties are eligible for financing. Not all programs allow for all occupancy types. See program matrices for specific requirements.

### C-1 – Primary Residence

A primary residence is a property that is physically occupied by at least one borrower as their primary residence. Residency is defined by the following criteria:

- Borrower occupies the property as his or her principal residence
- Borrower occupies the property for a majority part of the year
- Property location is convenient to the borrower's principal place of employment
- Property address is of record for one or more of the following: federal income tax reporting, voter registration, driver's license, occupational licensing, etc.

The borrower must occupy the property within 60 days of closing and continue to occupy the property for at least one year.

Applicable for loans underwritten with DU or LPA: Only under the following circumstances is an owner-occupied transaction permitted for a borrower who does not plan to occupy the subject property as their primary residence:

- Parents wanting to provide housing for their physically handicapped or developmentally disabled adult child when the child is unable to work or does not have sufficient income to qualify for a mortgage on their own.
- Children wanting to provide housing for parents when the parent(s) is unable to work or does not have sufficient income to qualify for a mortgage on their own

### C-2 – Second Homes

True second homes are permitted as an acceptable occupancy type. For a property to qualify as a second home, the following requirements must be met:

- Subject property must be located a reasonable distance away from the borrower's principal residence.
- Subject property must be occupied by the borrower for some portion of the year.
- Only insignificant rental income may be claimed on the tax returns for the subject property. Full 1040s for the past 2 years are required to demonstrate.
- Note: Insignificant income cannot be used to qualify even if property is determined to be eligible as second home.
- Property should be in a typical second home area, otherwise satisfactorily justified by the borrower(s) as a second home.
- The borrower(s) must have exclusive control over the property. Cannot be subject to any arrangements that give a management firm control over the occupancy of the property.
- Restricted to one-unit dwellings.
- Subject property must be suitable for year-round occupancy unless all of the following criteria are met:
  - Property is located in an area where second homes are commonly not suitable for year-round occupancy
  - Property appraisal report uses comparable properties that are seasonally occupied, demonstrating that the subject's premises are acceptable to the market
  - Property is available for the exclusive use and enjoyment of the borrower(s)
- Reserve requirements for the program must be satisfied.

For first time homebuyers purchasing Second Homes, see **First Time Homebuyer** requirements under C-3 – Investment Properties.

## C-3 – Investment Properties

Investment properties will be permitted for purchase, rate and term and cash out programs on one to four (1-4) unit properties and approved condos. Limited Reviews on condominiums are not permitted for investment properties. Reserve requirements for the program must be satisfied.

For investment properties, individual charge-offs or collection accounts equal to or greater than \$250 and accounts that total more than \$1,000 must be paid in full prior to or at closing.

### **First Time Homebuyers**

Borrowers who have not purchased a primary residence prior to purchasing an investment property or second home should be evaluated closely to confirm occupancy, mitigate fraud and insure that a quality transaction is being fulfilled. It would be difficult to view a transaction favorably where a borrower could buy a primary residence in their home area but chooses to buy a second home/investment property in some far off locale. It is also of concern if a borrower has no demonstrated housing payment history or if the borrower has a limited credit history when considering them for loan approval.

There are situations where it is “normal” to find a borrower who is purchasing a 2nd home without owning a primary. For example, a borrower may rent an apartment in NYC and buy a 2nd home in Florida or other resort area. Due to the high price of real estate in NYC it may be out of reach for the borrower to purchase a primary residence however, they can easily afford a resort property in Florida. These borrowers are normally very savvy, with a strong financial picture and excellent qualifications. Borrowers with weak credit depth, low financial strength and no housing history should not be approved for financing under the Second Home program.

Borrowers who are purchasing their first property as an Investment property present many concerns regarding ability to pay, landlord experience and knowledge of the costs that are incurred in owning a home. Borrowers who present a strong financial picture may be considered for investment property approval however, in order to consider the income from the subject to qualify the borrower must:

- 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
- No gifts allowed
- 6 months reserves in addition to DU requirements
- Borrower must have a strong employment history with 2+ years of stable, strong employment/income
- Underwriter must run LexisNexis to confirm arms-length transaction

Borrowers who do not meet all of the requirements noted above, cannot use the income from the subject property to qualify and must carry the full payment load in their debt to income calculation.

Borrowers who are purchasing their first property as an Investment property or Second Home and have no financial strength, limited credit history, no housing history and demonstrated lack of financial acumen should not be approved.

## Part D – Underwriting Documentation

### D-1 – Age of Documents

**Correspondent Lending:** Age of documents must meet agency requirements.

### D-2 – Acceptable Documents

The application package must contain acceptable documentation to support the underwriting decision. When standard documentation does not provide sufficient information to support the decision, additional explanatory statements or documentation must be provided.

Verification forms must pass directly between CMG/correspondent and creditor without being handled by any third party. Documentation must not contain any alterations, erasures, and correction fluid or correction tape.

Alternative documentation is allowed for all eligible loans. Defer to AUS findings for required documentation. Note: A seller can submit to CMG all conventional loans participated through DU Validation Services. The seller is to follow the DU validation, confirming the verification report matches the borrower information and provides all supporting documentation DU requires for each opt-in service.

Alternative documentation provided in lieu of "Verification of Employment" and "Verification of Asset" forms must be legible originals or certified true and exact copies. The documentation cannot contain any alterations, erasures or whiteouts.

#### **Fax Copies**

Fax copies in lieu of original documents or certified copies are acceptable subject to the following:

- Verification transmitted directly from the loan processor to an employer, depository institution, mortgagee or landlord. The employer, depository institution, mortgagee or landlord must transmit the verification directly back to the loan processor.
- Photocopies or faxes received by the loan originator or loan processor directly from the borrower are acceptable.
- Copies or faxes from a builder, real estate agent, property seller or other third party are unacceptable.

#### **Photos of Documents**

- Documents in the file must meet documentation standards whether they are copies or photos. The Borrower may provide verification of income, employment and assets in the form of a photocopy, facsimile or electronic verification. Electronic verifications, photocopies or facsimiles of other verifications, where the originator did not view and copy the original documents directly, are subject to re-verification and/or underwriting may ask for originals / certified copies on an as needed basis. In all cases, the lender is responsible for the integrity and accuracy of the information in the mortgage underwriting file.

#### **Internet Documentation**

For conventional loans, Internet documents/downloads of credit reports as well as income, employment and asset verification are acceptable. The allowance of Internet docs does not change the required content or level of documentation needed. The information must be easy to read, understandable, and have no evidence of alterations, erasures or white-outs. The information must also make sense based on the borrower profile and transaction terms.

The following source validation criteria apply to all documents obtained via the Internet:

- Identify the borrower as the employee or owner of the applicable account.
- Identify the credit reporting agency, employer, or depository/investment firm's name and source of information.
- Headers, footers, and the banner portion of the printout of the downloaded web page(s) must reflect the appropriate firm.

- Display the Internet uniform resource locator (URL) address and the date and time printed.
- If faxing an Internet download, make sure fax header does not cover URL information.

## **Direct Written Verification**

Written verifications for employment, deposit accounts and/or mortgage/rental history (VOE/VOD/VOM) must pass directly between CMG/correspondent and the employer, financial institution, mortgagor/landlord, as applicable, without being handled by any third party.

Documentation must not contain any alterations, erasures, and correction fluid or correction tape.

## **Additional Documentation**

- Tax returns, if required, must be true copies and the applicant must sign copies of filed returns.
- W-2 forms that are marked "Employer Copy" are not acceptable. Employers do not distribute their copies.
- If handwritten W-2 forms or paystubs are provided, tax returns must be obtained to substantiate the income.
- Letters of explanation regarding financial circumstances must specifically address the financial or credit concern presented and must contain a complete explanation in the applicant's own words, and be signed and dated by the applicant.

## **D-3 – Electronic Signatures**

For Fannie Mae and Freddie Mac loan programs, Electronic Signatures are permitted on the Initial 1003 and all Initial Disclosures.

For Freddie Mac, Electronic Signatures are permitted on Real Estate Sales Contracts that are managed by a licensed Real Estate Broker. Fannie Mae permits Electronic Signatures on the Real Estate Sales Contracts without the requirement to verify the contract is managed by a licensed real estate broker, however since the investor is finalized after funding, Freddie Mac's requirement must be followed on all Conventional loans. CMG is required to ensure all of the Real Estate Brokers listed on the Sales Contract are licensed and that the Sales Contract is signed by the correct parties in all required places.

Note: For Sale by Owner (FSBO) purchase transactions are not managed by a licensed Real Estate Broker, so Electronic Signatures are NOT permitted on the Sales Contract. Additionally, if either the Seller(s) or Buyer(s) are not utilizing a licensed Real Estate Broker, then Electronic Signatures are NOT permitted for that party.

The Correspondent Selling Company is required to validate that their document delivery company is contracted to deliver initial disclosures to the consumer with the option for Electronic Signatures in compliance with the Electronic Signatures in Global and National Commerce Act (E-Sign Act), the Uniform Electronic Transactions Act (UETA), and the IRS's IVES Participant Guidelines for the 4506-T.

## D-4 – Fraud Detection Tools

CMG employs risk management tools through selected vendors that provide information to assist with assessing the value risk and fraud potential in a loan transaction. These tools effectively screens the following components associated with mortgages:

- Income
- Employment
- Identity
- Occupancy
- Undisclosed debts
- Straw Borrowers

**Correspondent Lending:** It is considered a best practice for Correspondent Lenders to address any High Risk items noted on the fraud detection report. Refer to Correspondent Selling guide for additional QC requirements.

## Part E – Application

### E-1 – Application

The originator should perform a preliminary review of the borrower's application to determine that the requested mortgage loan satisfies program mortgage eligibility criteria. The originator's level of review should be the same for each mortgage. This eligibility review should happen before underwriting begins based on predictive risk factors that are incorporated into the Program Matrices, specifically:

- LTV/CLTV/HCLTV
- Qualifying Credit Score
- Product Type
- Loan Purpose
- Occupancy
- Property Type, including number of units

#### **NMLS**

CMG will validate Nationwide Mortgage Licensing System (NMLS) IDs provided on all loans submitted against the NMLS Registry which can be accessed at the following link: <http://www.nmlsconsumeraccess.org/>

The validation will include the following:

- Originator ID is found on the NMLS Consumer Access Website
- Originator ID matches the Originator Name
- 1003 Application Date is not prior to Originator Authorization Date
- Originator is authorized to conduct business in the property state
- Originator ID matches the listed Company Originator ID
- Company Originator ID is found on the NMLS Consumer Access Website
- Company Originator ID matches the company name
- Company is authorized to conduct business in the property state
- 1003 Application Date is not prior to the Company Authorization Date
- 1003 Includes the Originator Name, Originator ID, Company Name, and Company Originator ID

### E-2 – Process to Add or Remove Borrowers

#### **Adding Borrowers**

Adding a borrower to a loan at any time during the loan process is acceptable. When this occurs a new RESPA package will be sent out to the borrower being added. The seven (7) day waiting period is **NOT APPLICABLE**. File should be submitted back to underwriting for review of additional borrower's information.

#### **Removing Borrowers**

Removing a borrower from a loan is allowed only under the following circumstances:

- No credit decision has been made on the loan and borrower expresses desire to withdraw their name from the application
- Loan has been approved with both borrowers as submitted and one borrower expresses desire to withdraw their name from the application.

Under both of the above circumstances-- Request in writing from borrower should be placed in imaged file supporting their desire to withdraw their name from the application.

Detailed notes should also be placed in the system to eliminate any possible confusion with the file.

Removing a borrower from a loan is NOT allowed in the following scenarios

- Loan is declined by underwriting

In this scenario the loan would need to be declined in the system and a new application would need to be taken with a single borrower.

Underwriting should not be issuing loan approvals with any type of condition that states one borrower needs to be removed. The loan should be declined and have a new application submitted with only the one borrower.

### **Exceptions**

Any exceptions to the above rules or scenarios not explained above should be submitted to compliance for review ([ComplianceDepartment@cmgfi.com](mailto:ComplianceDepartment@cmgfi.com))

## ***Part F – Credit Analysis***

### **F-1 – Credit Report**

#### **Correspondent:**

The credit report will be pulled through the seller's vendor, merged with the AUS findings, and provided to CMG in the loan package.

### **F-2 – Credit Score**

The three major Credit Repositories ("Agencies") offer a product that scores each consumer's credit history using the Fair Isaac model. Trademark names include the Experian "Fair Isaac Credit Score" (FICO), Trans Union "Emperica Score" and Equifax "Beacon Score". All are acceptable and are referred to as the "Credit Score".

All borrowers must meet minimum credit score requirements

The term "Qualifying Score" Score refers to the overall credit score applicable to a specific mortgage loan transaction as determined using the Agencies' "middle/lower, then lowest" credit score selection methodology.

#### **Credit Score Selection**

The following criteria should be used to determine each individual borrower's credit score using the "middle/lower" method:

- If there are three valid credit scores for a borrower, the middle score of the three scores is to be used.
- If there are three valid credit scores for a borrower but two of the scores are the same, the duplicate score is used.
- If there are two valid scores for a borrower, the lower of the two scores is to be used.
- If there is one valid score for a borrower, that score is used.

#### **Qualifying Score Selection**

After selecting the appropriate credit score for each borrower, the Qualifying Score must then be determined:

- If there is more than one borrower, the lowest selected credit score among all borrowers is the Qualifying Score.

When there is only one borrower, the selected credit score for that borrower is also the Qualifying Score.



## F-3 – Credit History

A borrower's credit history is an account of how well the borrower has managed credit with both current and past accounts. An older, established history-- even though the accounts may have zero balances-- will have a more positive impact on the borrower's credit profile than newly established accounts.

A borrower who has relatively new credit history is not automatically considered a high credit risk. Making payments as agreed on newly established accounts signifies lower risk than if payments are not being made as agreed.

Payment history is a significant factor in the evaluation of the borrower's credit. The Automated Underwriting System (AUS) considers the severity of the delinquencies, the length of time since the delinquencies, the number of accounts that were not paid as agreed, and the type of accounts with delinquencies.

When significant adverse credit is identified in a borrower's credit history, documentation must be provided evidencing the cause of the adverse credit and that an acceptable credit history has been re-established.

## F-4 – Credit Bureau Analysis

The following aspects of the credit bureau should be reviewed for all loans in addition to following any automated underwriting system messaging.

### **Bankruptcy or Foreclosure**

Determine there is no disclosed or reported bankruptcy or foreclosure on the credit bureau report, the application, or any other documentation in the file.

### **Credit Risk Score**

Insure the accuracy of the Credit Risk Score selected.

### **Fraud Alert**

All three national credit repositories have created automated messages to help identify possible fraudulent activity on a credit report. These alerts are commonly called HAWK ALERTS. All HAWK alerts must be adequately addressed and documented in the loan file.

## F-5 – Credit Inquiries/Attestation

The borrower needs to address all inquiries to their credit within 120 days of the credit pull date, unless a corresponding new tradeline is evidenced on the credit bureau. In the event any new debt was incurred since the original credit pull date, details of the new obligation must be obtained and the monthly payment must be included in the debt to income ratio. Acceptable documentation would include a recent statement or a credit supplement. CMG will continually monitor the borrower's credit throughout the loan process using Undisclosed Debt Verification (UDV) for new inquiries, new debt obligations, new derogatory credit, credit line increases (if over 75% has already been utilized), and new public records (tax liens, judgments, etc.).

## F-6 – Non-Traditional Credit

For the majority of the loan programs, the borrowers established credit history needs to consist only of the amount of credit necessary to produce a credit score. This does not hold true for conventional loans requiring mortgage insurance or for the non-agency product lines as minimum tradelines must be established to meet program requirements. See specific guidelines for details.

In the event the borrower does not have sufficient credit to produce a score, the loan will be deemed ineligible.

## Part G – Evaluating Income

### G-1 – Evaluating Income

All loans must include an Income Worksheet, demonstrating the rationale behind the calculations used to determine the borrower's qualifying income.

### G-2 – Verbal Verification of Employment

#### **TIMING**

The VVOE must be obtained within 10 business days prior to the Signing date for salaried income, and within 30 calendar days prior to the Signing date for self-employment income.

**Note:** Fannie Mae and Freddie Mac permit the VVOE to be completed after the Signing date but prior to the Delivery date to the agency. If the VVOE cannot be obtained prior to delivery, the loan is ineligible for delivery to either agency. CMG does not permit this practice and requires all VVOEs to be completed prior to the Signing date.

#### **SALARIED BORROWERS**

The requirements for completing a VVOE for a Salaried Borrower are:

- The employer's phone number and address must be obtained independently using directory assistance or the Internet.
- The employer must be contacted verbally to confirm the borrower's current employment status.
- The conversation with the employer must be documented and include the following:
  - Name and Title of the person at CMG who contacted the employer
  - Name and Title of the person who completed the verification for the employer
  - Employer name
  - Employer phone number
  - Source of the Employer's phone number
  - Dates of employment (Hire date to present)
- If the borrower is currently on leave, ensure that is noted on the VVOE
  - Borrower's position or title
  - Date of the call

If the employer refuses to verify employment verbally over the phone, a written verification may be obtained to confirm the borrower's current employment status. The written verification must be dated within the same timeframe as for the VVOE requirement. The written verification must be sent directly to the Human Resources, Payroll or Accounting department of the employer and received back directly from the employer. Copies provided by any other source are not acceptable. The written verification must include the Name and Title of the person who completed the verification for the employer.

**Note:** CMG may utilize the Written Verification of Employment (WVOE) Fannie Mae Form 1005 for the written verification. Please refer to the *Written Verification of Employment Policy* for more information regarding using this form.

If the employer uses a third party employment verification vendor, obtain a written verification directly from the vendor via electronic link, facsimile transmission or mail, and a legible copy must be retained in the loan file. The verification must be

completed within the same timeframe as the VVOE requirement and include the borrower's current employment status with the following information:

- Employer name
- Employer phone number
- Dates of employment (Hire date to present)
- Borrower's position or title
- Date of the information provided

**Note:** Because third-party vendor databases are typically updated monthly, the verification must evidence that the information in the vendor's database is no more than 30 days from the date the verification was pulled by the CMG employee.

## **SELF-EMPLOYED BORROWERS**

A Self-Employed borrower is defined as an individual that has twenty five percent (25%) or greater ownership of the business. An individual with less than 25% ownership is not considered self-employed.

The VVOE for Self-Employed borrowers is a verification of the **existence** of the business through a third party source. There are three options for completing the VVOE:

**Option 1:** Verify a phone listing and address for the borrower's business using directory assistance or the Internet.

**Note:** If the borrower's business is listed under his or her personal name instead of a business company name, Option 1 is not permitted since the existence of the *business* cannot be verified utilizing directory assistance or the Internet. CMG is required to verify the *business's* existence, not the borrower's name.

**Option 2:** Verify the business directly with a regulatory agency or the applicable licensing bureau by obtaining a copy of the Business License. The Business License must be in Good Standing/Active Status.

**Option 3:** Verify the business with a CPA.

Obtain a CPA letter on letterhead that includes the following information:

- CPA name
- CPA business name, if applicable
- CPA license number
- CPA's signature
- Date
- Borrower's business name and address
- Confirmation of the business's current active status and existence of the business for at least two years.

**Note:** If the CPA has not prepared the borrower's business tax returns for two years or longer, it is permissible for the CPA to provide confirmation of the business's active status for as long as the CPA has prepared the taxes.

For all options, CMG must document the name and address of the business, provide the date the information was verified, the source of the information obtained, and the Name and Title of the CMG employee who obtained the information.

## **1099 EMPLOYEE / INDEPENDENT CONTRACTOR**

If the borrower is an independent contractor, the borrower receives a 1099 instead of a W-2 to verify yearly income. If the borrower contracts with only one company, employment can be verified directly with that company using the steps

[www.cmgni.com](http://www.cmgni.com)

Information in these guidelines is for credit policy guidance only and is not a complete representation of CMG Financial (NMLS #1820) Lending Policies. Information is accurate as of the date of publishing and is subject to change without notice. The Guidelines outlined apply to Agency loans submitted to DU or LP. In addition to applying these CMG-specific overlays, all loans submitted to DU/LP must comply with the DU/LP Findings and Fannie Mae/Freddie Mac requirements. To verify our state licenses, please log onto the following websites: <http://www.cmgni.com/licensing.php> and [www.nmlsconsumeraccess.org](http://www.nmlsconsumeraccess.org)

outlined for Salaried Borrowers. If the borrower contracts with multiple companies, employment needs to be verified using a CPA Letter as outlined in Option 3 for self-employed Borrowers. If the borrower does not utilize a CPA, then the borrower needs to provide a minimum of two reference letters from the companies with which he or she contracts. CMG must validate the reference letters by contacting the companies to ensure the letters were provided by the companies listed.

### **MILITARY**

#### **Active Duty**

If the borrower is an active member of the military, the Servicemembers Civil Relief Act (SCRA) website provides independent verification of service dates. The SCRA website is located at:

[https://www.dmdc.osd.mil/appj/scra/single\\_record.xhtml](https://www.dmdc.osd.mil/appj/scra/single_record.xhtml)

#### **Civilian**

If the borrower is a civilian that is employed by the Department of Defense, the VVOE is obtained from the borrower. The borrower generates the verification of employment directly from the Defense Civilian Personnel Data System (DCPDS) using the Self Service My Biz tool for Employment Verification. This My Biz tool sends a password-protected Employment Verification document to CMG electronically directly to the email address provided by the borrower. The borrower must provide the password to CMG in order to access the Employment Verification document. Further explanation is provided on the following Department of Defense website:

<http://www.cpms.osd.mil/Subpage/EmploymentVerification>

### **SEASONAL EMPLOYMENT**

If the borrower has seasonal employment resulting in the employer being unable to provide verification of current, active employment, then in lieu of the VVOE, CMG may obtain evidence of current receipt and amount of unemployment compensation and evidence that it is associated with the seasonal employment. The employer is also required to confirm that there is a reasonable expectation that the borrower will be rehired for the next season. CMG Operations must ensure the Underwriter is aware of the Seasonal Employment, and the Underwriter must condition the loan as needed to meet agency, investor and/or loan program guidelines.

### **TEMPORARY LEAVE**

If the employer confirms the borrower is currently on temporary leave, CMG/correspondent must consider the borrower "employed." CMG Operations must ensure the Underwriter is aware of the Temporary Leave, and the Underwriter must condition the loan as needed to meet agency, investor and/or loan program guidelines

## **G-3 – Tax Transcript Policy**

A signed 4506T will be required on all applicants both prior to closing and at closing. CMG/Correspondent will execute the 4506T for tax transcripts (i.e. 1040s) on all income qualifying borrowers. In addition, if the borrower is self-employed, full business returns will be executed as well if they are required based on findings and/or program requirements.

Income as documented must be claimed on the tax returns in order to be used to qualify. The executed 4506T will not be sufficient to replace the requirement for signed tax returns on DU, but can be used if DU's messaging indicates that either signed tax returns OR income information directly from the IRS is sufficient.

As a reminder, IRS transcripts must be obtained for the years of income documented in the file. In instances where transcripts are not available for the most recent year documented, the branch should obtain the same number of years of transcripts, using the most recent years available.

If the borrower has not filed their tax returns for the current tax year, obtain two years of transcripts from the IRS.

**Refer to CMG's Income Validation Policy for additional details on transcript requirements.**

## **Transcript Review**

The IRS transcripts should be reviewed to ensure income is calculated properly, the DTI includes all required debts, and all required items are addressed. This includes but is not limited to a review of:

- Capital gains/losses
- Rental property income/losses
- Undisclosed self-employment
- Occupancy issues identified by address discrepancies
- Undisclosed dependents
- Undisclosed rental and/or other properties
- Undisclosed alimony obligation(s)
- Undisclosed federal tax debt(s)

If the income validated through the IRS is materially incorrect, the loan will not be eligible for approval/purchase.

It is important to compare the address returned on the tax transcripts to the borrower's addresses listed on the application to ensure consistency on documents in the loan file. Any discrepancies must be adequately addressed by the borrower.

## **Taxpayer Identification Theft**

Taxpayer identification theft occurs when a taxpayer's stolen Social Security number is used to file a forged tax return and attempt to claim a fraudulent refund.

The Tax Transcripts topic will be revised to reflect the following documentation requirements when a borrower is a victim of taxpayer identification theft:

- Proof of the identification theft as evidenced by one of the following:
- Proof of identification theft was reported to and received by the IRS (IRS form 14039)
- Copy of notification from the IRS alerting the taxpayer to possible identification theft
- Police report or proof of filing a complaint with the Federal Trade Commission

Each of the following secondary documents (as applicable) to validate the reported income on the tax returns in question:

- W2 or 1099 transcripts which match the W2 or 1099 income shown on the 1040s
- 1099 Mortgage Interest should match reported interest on Schedule A or Schedule E
- 1099G Unemployment should match reported unemployment
- 1099 Interest/Dividend should match reported dividend and interest
- Validation of prior tax year(s) income (income for current year must be in line with prior year(s))

## **G-4 – Stable Monthly Income**

Establishing stable monthly income is based on the type of income received, the length of time received, and whether or not the income is likely to continue. Additionally, for salaried applicants, the length of time employed in current position and length of time employed in current profession are also considerations in determining stable income.

### **Length of Employment**

Generally at least a two-year history of receipt of income is required to deem the income as stable. A borrower who has an income history of less than 24 months may be considered if CMG/correspondent is able to define and document the borrower's income as being stable, predictable, and likely to continue.

If the borrower has less than a two year employment history, provide documentation showing borrower was in school or in a training program immediately prior to employment to use as effective income.

## **Income Documentation**

Depending on the type of employment, various documentation requirements may be applied based on full documentation or alternative documentation methods, and considerations as to whether the borrower is salaried, commissioned or self-employed, etc.

## **G-5 – Non-Taxable Income**

CMG gives special consideration to regular sources of income that may be non-taxable, such as child support payments, Social Security benefits, disability retirement payments, foster care, and workers' compensation benefits.

If the income is verified to be non-taxable, and the income and its tax exempt status are likely to continue, CMG may develop an adjusted gross income for the borrower by adding an amount equal to 25% of the non-taxable income to the borrower's income.

Documentation that can be used for this verification includes award letters, policy agreements, account statements, or any other documents that address the nontaxable status of the income.

**Note – LPA loans only :** For Social Security income (i.e., retirement income, disability benefits, survivor benefits and Supplemental Security Income), the underwriter may gross up 15% of the income without obtaining additional documentation. For example, if the Borrower's Social Security income is \$1,000/month, the underwriter can gross up \$150 (i.e., 15% of \$1,000) without obtaining documentation that this portion of the income is tax exempt. Using 25% as the income adjustment factor, the income is calculated as follows:

- $\$150 \times 25\% = \$37.50$
- $\$1,000 + \$37.50 = \$1,037.50$
- $\$1,037.50$  can be used for qualifying without obtaining tax returns or other documentation evidencing that the income is tax exempt.

**The underwriter must obtain additional documentation in order to gross up the entire amount of income (i.e., \$1,000) for use in qualifying the Borrower. Refer to the Freddie Mac Selling Guide for additional details.**

## **G-6 – Projected Income**

For involving a new job for the borrower that will begin after closing borrower may be eligible subject to all of the following requirements:

- The subject transaction is for the purchase of a 1-unit primary residence;
- borrower must have a minimum 640 qualifying credit score;
- maximum DTI is 50%;
- the Borrower's employment offer must be non-contingent and the non-contingent offer letter must be retained in the loan file;
- the Borrower's written acceptance of the employment offer must be retained in the loan file;
- the Expected/Projected income cannot be derived from a family-owned business;
- the Borrower must have cash reserves to support the mortgage payment and any other obligations during the employment gap **plus** and additional one month's reserves of PITIA;
- the time frame between the Note Date and the start of employment (the employment gap) must not exceed 60 days (Income must be guaranteed to begin within 60 Days of mortgage closing);
- the income is calculated in accordance with the standards for the type of income being received;
- a post-closing copy of the borrower's first paystub / proof of receipt of income must be obtained and verified to support income used to qualify and retained in the loan file.
- In all cases the borrower must only be qualified using only fixed base income.

Note that DU Version 10.1 will issue a message related to these requirements when the years and months on the current job are "0" or blank.

## G-7 – Salary, Commission, and Bonus

### **Salary & Wages**

Salary and wage income may be used to qualify. Base income may be used to qualify. Significant increases in base over prior years should be adequately explained. Paystubs or payroll earnings covering the borrower's earnings for the most recent 30-day period and, if applicable, W2s for the most recent two years are required. Generally, the documents must be computer-generated or typed by the borrower's employer, although paystubs or payroll earnings statements that the borrower downloads from the internet are acceptable as well. Documents that are faxed to CMG/correspondent or that the borrower downloads from the internet must clearly identify the employer's name and source of information.

- Paystubs and payroll earnings statements must identify clearly the borrower as the employee and show the employee's gross earnings for both the most recent pay period and YTD.
- The paystub must be dated within 30 days of the application date and cover at least 30 days of YTD earnings.
- IRS W2 forms must identify the borrower as the employee.

### Determining the Need for Federal Income Tax Returns

Correspondent must obtain copies of the individual federal income tax returns filed with the IRS for the past two years for the following types of salaried borrowers.

- Borrowers employed by family members
- Borrowers employed by interested parties to the property sale, purchase, or financing transaction
- Borrowers receiving rental income from an investment property
- Borrowers receiving income from periodic employment or employment that is subject to time limits, such as a contract employee or a tradesperson

### **Overtime, Second Jobs or Additional Job**

Must have a two year history of receipt and be likely to continue for the next 3 years. To document, obtain the following:

- Most recent YTD paystub or salary voucher documenting at least one month of income;
- W2s covering the most recent two years;
- Verbal VOE not more than 10 business days prior to the Note Date.
- Written VOE (form 1005) verifying that overtime income is likely to continue

The employer must verify that overtime is likely to continue. If the employer cannot verify that overtime is likely to continue, then the overtime income cannot be used to qualify.

### **Bonus**

Bonus income must have a two year history of receipt to use as qualifying income. To document, obtain the following:

- Most recent YTD paystub or salary voucher documenting at least one month of income;
- W2s covering the most recent two years;
- Verbal VOE not more than 10 business days prior to the Note Date.

### **Commission Income**

In order to use commission income, the borrower must have a two year history of receipt to use as qualifying income. The documentation and income calculation requirements are the same for all commission income, regardless of its percentage of the total income from the commissioned employment. To document, CMG must obtain and verify ALL of the following unless AUS offers documentation relief:

- Most recent YTD paystub or salary voucher documenting at least one month of income;

- W-2 forms for the two most recent calendar years
- Verbal VOE not more than 10 business days prior to the Note Date.

Annual earnings must be level or increasing. If earnings show a decline in the current year, there must be strong offsetting factors to make the commission income acceptable. Simply using the lower current earnings is not acceptable. It must be determined that the income has stabilized at the current levels to consider as effective income.

**Notes:**

- **Tax Returns/Tax Transcripts:** Lenders may implement these changes immediately and are no longer required to obtain tax return documentation or tax transcripts to identify unreimbursed business expenses. The DU messages reflecting these changes will be updated in a future release. Until then, lenders may disregard the requirement to obtain IRS Form 1040 or Form 2106 for commission income and automobile allowance.
- **Day1 Certainty Impact:** Until the DU validation service is updated, lenders must continue to obtain a tax transcript for borrowers with commission income that is 25% or more of employment income to be eligible for income validation.

## G-8 – Part Time, Second Job, and Seasonal Income

For all part time and second job requirements, refer to the Overtime, Second Jobs or Additional Job requirements in section G-7: Salary, Commission, and Bonus.

CMG aligns with agency requirements in regards to eligibility of and documentation requirements for seasonal income and seasonal unemployment compensation. The following must be verified for seasonal income:

- It must be verified that the borrower has worked in the same job (or the same line of seasonal work) for the past two years.
- It must be confirmed with the borrower's employer that there is a reasonable expectation that the borrower will be rehired for the next season.
- For seasonal unemployment compensation, verify that it is appropriately documented, clearly associated with seasonal layoffs, expected to recur, and reported on the borrower's signed federal income tax returns. Otherwise, unemployment compensation cannot be used to qualify the borrower.

## G-9 – Military Income

In addition to base pay, military personnel may be entitled to additional income. Income from variable housing allowances, clothing allowances, flight or hazard pay, rations, and proficiency pay is acceptable, provided a verification of employment shows the continuation of the income is likely.

Obtain a copy of the borrower's last Leave and Earnings Statement (LES) to verify allotments, allowances, estimated time in service, and the amount of net and gross earnings. Also, obtain and verify the following information from the LES:

- Military Rank
- Social Security Number
- Military Address
- Length of Active Service to Date



- Estimated remaining time at present location

The LES must show at least 12 months remaining in service to use housing (BAQ), rations, uniforms, food, and flight pay income.

## G-10 – Rental Income

With the release of selling guide bulletin 2017-12, Freddie Mac addresses revisions to rental income requirements and guidance. The revisions include addressing evolving housing industry trends in the rental market such as short term rental income and includes expanded requirements, additional specificity and guidance to support the determination of stability, reasonable expectation of continuance and calculation of rental income, resulting in continued support of purchase certainty. In order to meet Freddie Mac's delivery requirements, December 29th will be the last day for CMG to fund/purchase loans not meeting the revised requirements.

<http://www.freddiemac.com/singlefamily/guide/bulletins/pdf/bl1712.pdf>

Table G-10-A: Documenting Rental Income from the Subject Property

Does the Borrower Have a History of Receiving Rental Income From the Subject Property?	Transaction Type	Documentation Requirements
Yes	Refinance	Form 1007 or Form 1025, as applicable, and the borrower's most recent year of signed federal income tax returns, including Schedule E
No	Purchase	Form 1007 or Form 1025, as applicable, and copies of the current lease agreement(s). If the property is not currently rented, lease agreements are not required. Market rent may be used when supported by Form 1007 or Form 1025, as applicable.
No  (Borrower may have experienced significant rental interruptions such that income is not reported on the recent tax return. For example, major renovation to a property occurred in the prior year. Renovation costs must be reflected on Schedule E.)	Refinance	Form 1007 or Form 1025, as applicable, and copies of the current lease agreement(s).

- In addition, Freddie Mac/LPA loans must meet Freddie Mac Selling Guide requirements for **Investment property management experience and maximum eligible amount of net rental income located in Selling Guide section 5306.1**.
  - The Borrower must have a minimum one-year history of investment property management experience occurring within the most recent 36 months. The management experience must be

documented with at least the most recent year of complete federal income tax returns for which the investment property was in service.

**or**

- The net rental income, as described in Section 5306.1(c)(iii), may only be considered in an amount up to 30% of the sum of the net rental income and all other stable monthly income (e.g., employment earnings) that is used to qualify the Borrower for the Mortgage.

Note: If there are multiple properties that are subject to the 30% requirement (e.g., a subject property purchase transaction and a non-subject investment property purchased in the current calendar year), the 30% requirement applies to the combined total of net rental income.

### Calculating Monthly Qualifying Rental Income (or Loss) - DU Loans

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"> <li>• currently owns a principal residence (or has a current housing expense), and</li> <li>• has at least a one-year history of receiving rental income or documented property management experience</li> </ul> <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"> <li>• currently owns a principal residence (or has a current housing expense), and</li> <li>• has less than one-year history of receiving rental income or documented property management experience</li> </ul>	<ul style="list-style-type: none"> <li>• 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</li> <li>• for an investment property, rental income can only be used to offset the PITIA of the subject property.</li> </ul>
<ul style="list-style-type: none"> <li>• does not own a principal residence, and</li> <li>• does not have a current housing expense</li> </ul>	<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.

**Link (Fannie Mae Selling Guide is already**

**updated):** <https://www.fanniemae.com/content/guide/selling/b3/3.1/08.html>

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

## G-11 – Other Sources of Income

Other sources of income include:

- Alimony or Child Support
- Automobile Allowance
- Capital Gains Income
- Disability Income / Borrower(s) with a Temporary Reduction in Income / Temporary Leave
- Foreign Income
- Foster Care Income
- Interest and Dividends Income
- Notes receivable income
- Retirement, Government Annuity and Pension Income
- Social Security Income
- Tip Income
- Trust Income
- Unemployment Benefits Income
- VA Benefits Income

### **Alimony or Child Support**

Alimony or child support may be used as effective income provided the borrower supplies a copy of the divorce decree, legal separation agreement, or court order showing the payment will continue for at least three years, as well as proof of receipt for the past 12 months. Acceptable documentation would include cancelled checks, deposit slips, tax returns and /or court records. If the borrower has been receiving full, regular, and timely payments for alimony or child support or maintenance for 12 months, the income is considered stable.

Agency requirements for documentation of receipt must be met.

### **Auto-allowance**

Auto and expense account reimbursement are paid by the employer to cover expenses incurred related to conducting business. A portion of this income may be used to qualify provided there is a two-year history of receipt. The full amount of the allowance should be added as income and the full amount of the auto expense should be included in the monthly obligations. The automobile allowance may not be subtracted from the monthly automobile financing expense.

Typically, auto expenses are included in the W2 earnings, therefore it is imperative to make certain the income is not being counted twice.

### **Capital Gains**

When income from this source is used to qualify, a two year history via tax returns must be obtained to determine if it is recurring and can be included as income. Average amount can be used as qualifying income provided there is evidence that borrower owns additional property/assets that can be sold in the future. If capital gains/loss appears to be a one-time occurrence, it should not be considered in qualifying income. If earnings are consistent, a two-year average will suffice, however if earnings fluctuate substantially, a three year average will be required.

### **Disability Income / Borrower(s) With a Temporary Reduction in Income / Temporary Leave:**

- **Long Term Disability:** Obtain a copy of the borrower's disability policy or benefits statement from the benefits payer (insurance company, employer, or other qualified disinterested party) to determine
  - the borrower's current eligibility for the disability benefits,
  - the amount and frequency of the disability payments, and
  - if there is a contractually established termination or modification date

Generally, long-term disability will not have a defined expiration date and must be expected to continue. The requirement for re-evaluation of benefits is not considered a defined expiration date. For Social Security Disability refer to section on Social Security Income section.

If a borrower is currently receiving short-term disability payments that will decrease to a lesser amount within the next three years because they are being converted to long-term benefits, the amount of the long-term benefits must be used as income to qualify the borrower. See below for additional information on short term disability.

- **Short Term Disability / Temporary Leave:** For Borrowers with a temporary reduction of income due to a short-term disability or similar temporary leave, the underwriter should consider the Borrower's current disability income as effective income, if it can verify and document that:
  - the Borrower intends to return to work (letter from borrower)
  - the Borrower has the right to return to work (verification of employment or letter from employer); and
  - the Borrower qualifies for the mortgage taking into account any reduction of income due to the circumstance.

For Borrowers who will return to work prior to the first payment date of the mortgage and all the criteria above has been met, the borrowers post leave income may be used for qualification purposes.

Refer to Verbal Verification of Employment section for VVOE requirements.

Note: CMG aligns with agency requirements.

- For additional guidance on DU approved loans refer to Fannie Mae Selling Guide B3-3.1-09: Other sources of income at <https://www.fanniemae.com/content/guide/selling/b3/3.1/09.html#Temporary.20Leave.20Income>.
- For additional guidance on LPA approved loans refer to Freddie Mac Selling Guide sections 5303.5 & 5305.6.

## **Foreign Income**

Foreign income is acceptable only if income is claimed on U.S. personal tax returns with a 4506T validation.

Foreign income should be paid in U.S. currency. However, income paid in foreign currency may be considered on a case-by-case basis if it's converted into U.S. currency and claimed on borrower's U.S. tax returns.

## **Foster Care Income**

Income received from a state or county sponsored organization for providing temporary care for children may be considered as acceptable stable income as long as the borrower has a two-year history of receipt of such income, and is likely in the foreseeable future to continue to provide such services at the same level. If the borrower has not been receiving the income for a full two years, but has been receiving the income for at least 12 months, the income may be used as stable income, as long as it doesn't represent more than 30% of the total income used to qualify.

Foster care may be verified by letters from the organization providing the income, copies of the borrowers signed federal tax returns filed with the IRS, or copies of the borrower's deposit slips or bank statements showing the receipt of the income.

Per the IRS website, foster care income is not taxable so it may not appear on the tax returns.

## **Interest and Dividend Income**

Income from this source may be used provided the tax returns show a two year history of receipt and an anticipated three years of continuance. An average of the income earned over the past two years from the federal tax returns must be used to verify the income.

Interest and dividend income may be used to qualify provided it is properly documented and ownership of the assets on which the interest / dividend income was earned is verified. Any asset used for down payment or closing costs must be subtracted from the borrower's total assets before calculating expected future dividend or interest income.

## **Notes Receivable**

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Evidence of receipt for the last 12 months is required, in addition to a copy of the note verifying payment amount and remaining term of at least three years.

A 12-month history of receipt must be verified with one of the following:

- Bank deposit slips
- Canceled checks
- Tax returns

Income from a recently executed note (less than 12 months), indicating a minimum duration of at least three years from the date of application, may not be used as stable income, but may be used to justify a higher qualifying ratio (i.e. compensating factor).

## **Retirement, Government Annuity, and Pension Income**

Document regular and continued receipt of the income, as verified by:

- Letters from the organizations providing the income;
- Copies of retirement award letters;
- Copies of signed federal income tax returns;
- 1099s;
- Copies of the borrower's most recent two months bank statements.

If retirement income is paid in the form of a monthly distribution from a 401K, IRA, or KEOGH retirement account, determine whether the income is expected to continue for three years after the date of the mortgage application to be used as effective income.

If the distribution being received has been newly established, the following is required:

- Letter, from the organization detailing the terms of the distribution, and setup must be prior to the application date
- Asset documentation to support sufficient funds for the distribution to continue for a minimum of three years
- A minimum of one payment from the distribution must be received by the borrower prior to closing. Verification of receipt may be documented via a copy of the distribution check or bank statement showing the distribution being received into the borrower's account

## **Social Security Income (SSI)**

When CMG/correspondent believes or knows that the Social Security or disability income falls in a category that does not have a defined expiration date, CMG/correspondent may conclude that the income is considered stable, predictable, and likely to continue and is therefore not expected to request additional documentation from the borrower.

Social Security income for retirement or long-term disability that the borrower is drawing from his or her own account/work record will not have a defined expiration date and must be expected to continue.

However, if Social Security benefits are being paid as a benefit for a family member of the benefit owner, that income may be used in qualifying if documentation confirms the remaining term is at least three years from the date of the loan application.

Document benefits and proof of current receipt as required by AUS findings.

## **Tip Income**

Tip income may be used to qualify the borrower if a verification of employment is received showing the type of income has been received for the past two years and will in all probability continue. An average of the past two years' tip income will be used to qualify the borrower, provided the income is consistent and not declining. The income must be shown on the borrower's tax returns and validated in order to be used to qualify.

## **Trust Income**

Trust income may be used if guaranteed constant payments will continue for at least 3 years. A copy of the trust agreement must be provided, confirming the amount, frequency, and duration of the distribution. Proof of receipt for the most recent three months must be provided.

## **Unemployment Benefits**

Unemployment benefits may be used to qualify provided tax returns are obtained showing the income has been received over the past two years and the likelihood of the continuance of the income is established.

If the borrower is a seasonal worker, proof of current receipt of unemployment cannot be a substitute for a current paystub to satisfy the AUS requirement. The paystub must be from the borrower's regular employment.

The following documentation is required:

- Written VOE covering two full years for the seasonal employment
- Proof of receipt of unemployment compensation for two years, if applicable

OR

- Year to date paystub for 30 days (primary job, not unemployment)
- W2s covering the most recent two years
- Proof of receipt of unemployment compensation for two years, if applicable

## **VA Benefits Income**

VA Benefits may be deemed acceptable with documentation of receipt of VA benefits from a letter of distribution form from the VA and proof the income can be expected to continue for a minimum of three years from the date of closing. Educational benefits are not acceptable income because they are offset by educational expenses.

## **G-12 – Self-Employment Income**

**Note:** Generally speaking, two year's documentation is required on Self Employed borrowers. If findings require less, minimum one-year verification is acceptable.

Generally, the self-employed income is computed using a two year analysis of the borrower's federal tax returns and business returns, if applicable, unless DU approves with less documentation. A year to date profit and loss statement is not used to calculate qualifying income but instead to consider the borrower's income trend and the overall financial stability of the business. Declining income is subject to careful analysis and may not be approvable. If approvable, generally a worst-case scenario will be used to qualify.

Self Employed Borrowers are defined as borrowers owning 25% or more of a business. If a borrower has less than 25% ownership in a partnership or corporation, business returns are not required. Either the most recent years' K-1 or a statement from the business CPA or CEO is required to document the ownership percentage.

**Note on self-employment secondary income (loss):** When self-employment is disclosed in the Mortgage file but is not used to qualify for the Mortgage, the lender is not required to obtain any additional documentation or evaluate the income or loss from the self-employment for each Borrower who:

- Has a primary source of income, other than self-employment, used for qualifying the Mortgage (e.g., salaried income from primary employment), and

- Is self-employed, and the self-employment income is a secondary source of income

### **Income or Loss Reported on Schedule C**

The income or loss from a borrower's sole proprietorship business is calculated on the Profit or Loss from Business (Schedule C) and transferred to IRS Form 1040. Certain adjustments may need to be made to the net profit from Schedule C. If the Schedule C includes income that was not obtained from the profits of the business and that income does not appear likely to continue, the net profit should be adjusted by that figure. In addition, for agency loans, the following deductions may be added back to the borrower's net cash flow: depreciation, depletion, business use of a home, amortization, or casualty losses. The following should be deducted from the borrower's cash flow for all loan types: any exclusion for meals and entertainment expenses.

### **Income or Loss from Schedule F**

Income received from farming is calculated on the Profit or Loss from Farming (Schedule F) and transferred to the IRS Form 1040. In completing the cash flow analysis, certain adjustments may need to be made to the net income amount that was transferred to the 1040. For example, certain federal agricultural payments, cooperative distributions, and insurance or loan proceeds are not fully taxable so they would not have been reported on the 1040. The income sources may or may not be stable or continuous and could be a one-time occurrence. If the income from these sources is stable and continuing, the borrower's cash flow should be adjusted by the non-taxable portion of any recurring income from these sources. Other income on Schedule F may represent income that is not obtained from the borrower's farming operation. If the income cannot be verified to be stable, consistent, and recurring, it must be deducted from the borrower's cash flow. The cash flow may be adjusted by adding the amount of any deductions the borrower took on Schedule F for depreciation, amortization, casualty loss, depletion, and business use of his or her home.

### **Evaluating Business Tax Returns**

#### *Returns for a Partnership or LLC (IRS 1065 / SCHEDULE K-1)*

Both partnerships and limited liability corporations use the US Partnership Return of Income (IRS Form 1065) and the Partner's Share of Income, Credits, and Deductions, etc. (Schedule K-1) for filing income tax returns for the partnership or LLC. The partner's or member-owner's share of income (or loss) is carried over to the Supplemental Income and Loss (Schedule E to IRS Form 1040).

When analyzing IRS Form 1065, cash flow analysis of the business should be adjusted by adding back to the business's cash flow depreciation, depletion, amortization or casualty losses, and any other losses that are not consistent or recurring. The business income should be reduced by the meals and entertainment exclusion, and any other reported income that is not consistent and recurring. Obligations on mortgages or notes that are due and payable in less than one year can significantly affect the financial operations of the business, so the business income should be reduced by the total amount of such obligations. However, if there is evidence that these obligations roll over regularly and/or the business has sufficient liquid assets to cover them, the income does not need to be adjusted.

Income that the business receives from a partnership, estate, or trust generally should not be recognized, unless CMG/correspondent obtains documentation to verify that the income was actually distributed to the borrower's business. If so, the income may only be considered if the borrower's business has a history of receiving such distributions on a consistent basis, the borrower's business has positive sales and earnings trends and adequate liquidity to support the withdrawal and the borrower can document his or her ownership and access to the income the partnership agreement or LLC's operating agreement.

The cash flow analysis should only consider the borrower's share of the business income (or loss), taking into consideration any adjustments to the business income discussed above. The borrower's proportionate share of the business income is based on his or her percentage of capital ownership in the business at the end of the year as shown on Schedule K-1.

Once the income is calculated, evaluate the overall financial position of the borrower's business to determine whether its income is stable and consistent, its sales and earnings trends are positive, and its liquidity is adequate to support the borrower's withdrawal of cash without a severe negative effect on the business. If this cannot be confirmed, income from the business should not be used to qualify the borrower. Any losses should be considered in the overall analysis.

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## **Returns for an S-Corporation**

S corporations pass gains and losses on to their shareholders, who are then taxed at the tax rates for individuals. The S corporation uses the US Income Tax Return for an S Corporation (IRS 1120S) and the Shareholder's Share of Income, Credits, Deductions, etc. (Schedule K-1) for filing federal income tax returns for the corporation. The shareholder's share of income (or loss) is carried over to the Supplemental Income and Loss (Schedule E to IRS Form 1040). Ordinary income from the S corporation may be used to qualify the borrower only if the borrower's business has a history of receiving such distributions on a consistent basis, the business income is stable and consistent, the earning trends are positive, and the business has adequate liquidity to support the borrower's withdrawal of cash without a severe negative effect to the business. To determine the S corporation's ability to support the borrower's withdrawal of earnings, the underwriter should review the S corporation's history of distributions and its financial and liquidity positions.

When analyzing IRS Form 1120S, the cash flow should be adjusted by adding back depreciation, depletion, amortization or casualty losses, or any other losses that are not consistent and recurring. The cash flow should be reduced by meals and entertainment exclusion and any reported income that is not consistent and recurring. Obligations on mortgages or notes that are due and payable in less than one year can significantly affect the financial operations of the business, so the business income should be reduced by the total amount of such obligations. However, if there is evidence that these obligations roll over regularly and/or the business has sufficient liquid assets to cover them, the income does not need to make this adjustment.

The cash flow analysis should only consider the borrower's share of the business income (or loss), taking into consideration any adjustments to the business income discussed above. The borrower's proportionate share of the business income is based on his or her percentage of capital ownership in the business at the end of the year as shown on Schedule K-1.

Once the income is calculated, evaluate the overall financial position of the borrower's business to determine whether its income is stable and consistent, its sales and earnings trends are positive, and its liquidity is adequate to support the borrower's withdrawal of cash without a severe negative effect on the business. If this cannot be confirmed, income from the business should not be used to qualify the borrower. Any losses should be considered in the overall analysis.

## **Returns for a Corporation**

A corporation uses the US Corporation Income Tax Return (IRS Form 1120) to report its taxes. Corporate earnings may not be used to qualify unless it is determined that the borrower owns 100% of the business. A borrower's percentage of ownership in a corporation can usually be determined from the "compensation of officers" section of the corporate tax return. A statement from the corporation's accountant will be acceptable evidence of the borrower's ownership of a business. When funds from a corporation that operates on a fiscal year that is different from the calendar year are used in qualifying a self-employed borrower, time adjustments must be made to relate the corporate income to the borrower's individual tax returns (which is based on a calendar year).

When analyzing IRS Form 1120, the cash flow should be adjusted by adding back depreciation, depletion, amortization or casualty losses, or any other losses that are not consistent and recurring. Deductions the business took for net operating losses and other special deductions that do not represent recurring expenses or losses should be added back to the cash flow analysis. The cash flow should be reduced by the meals and entertainment exclusion. The corporation's taxable income does not reflect the corporation's tax liability and dividends it pays to its stockholders; therefore the cash flow should be reduced by the corporation's tax liability and the amount of any dividends payable from the corporation. Obligations on mortgages or notes that are due and payable in less than one year can significantly affect the financial operations of the business, so the business income should be reduced by the total amount of such obligations. However, if there is evidence that these obligations roll over regularly and/or the business has sufficient liquid assets to cover them, the income does not need to make this adjustment.

Once the income is calculated, evaluate the overall financial position of the borrower's business to determine whether its income is stable and consistent, its sales and earnings trends are positive, and its liquidity is adequate to support the borrower's withdrawal of cash without a severe negative effect on the business. If this cannot be confirmed, income from the business should not be used to qualify the borrower. Any losses should be considered in the overall analysis.

## **Evaluating Profit and Loss Statements**

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A profit and loss statement (audited or unaudited) may be used to support the determination of stability and continuance of income for a self-employed borrower. Profit and loss statements cannot be used to establish new income levels, but can be used to support the fully documented income level. A typical Profit and Loss statement has a format similar to the Schedule C. If the borrower's year to date salary or draws were not used for the qualifying income, they may be added to the net profit on the P&L statement, and the following items may be added back to the net profit figure as well: nonrecurring income and expenses, depreciation, and depletion. However, only the borrower's proportionate share of these items may be considered in determining the amount of income from the business that can be used to qualify.

## G-13 – Unacceptable Income Sources

CMG considers any income that is not legal in accordance with all applicable federal, state and local laws, rules and regulations as an ineligible income source for all financing types and programs. Federal law restricts the following activities and therefore the income from these sources are not allowed for qualifying:

- Foreign shell banks
- Medical marijuana dispensaries (self-employed)
- Any business or activity related to recreational marijuana use, growing, selling or supplying of marijuana, even if legally permitted under state or local law.
- Businesses engaged in any type of internet gambling.

CMG may only consider income if it is legally derived. Per IRS regulations, income derived from trafficking in controlled substances is illegal and under federal law, marijuana is a controlled substance.

## Part H – Asset Assessment

### H-1 – Asset Assessment

Automated underwriting systems will indicate the minimum verification documentation necessary for CMG/correspondent to process the loan transaction. This level of documentation may not be adequate for every borrower and every situation. The underwriter must determine whether additional documentation is warranted. Note: all refinance loans run through Loan Prospector require assets to be documented. At least one month's bank statement or equivalent must be provided. LP will not be updated and verification of funds for a refinance transaction will need to be applied manually.

### H-2 – Depository Accounts

For depository accounts (checking, savings, money market funds, CDs), two consecutive monthly statements are required. Loans scored through an AUS may provide reduced documentation requirements and should be documented according to the findings.

- Monthly bank statements must be dated within 45 days of the initial loan application.
- Quarterly bank statements must be dated within 90 days of the initial loan application.

Bank statements must:

- Clearly identify the borrower as the account holder and include the account number
- Include the time period covered by the statement
- Include all deposits and withdrawal transactions
- Include the ending balance

Written Verifications of Deposit (VOD) are not acceptable. Only system generated Verifications of Deposit from the financial institution are acceptable. VODs as standalone asset documentation are not acceptable, and must always be accompanied by bank statements. Fannie Mae's Day 1 Certainty™ documentation relief is permitted.

CMG/correspondent must investigate any indications of borrowed funds. They include recently opened accounts, large deposits, or account balances that are considerably greater than the average balance over the past few months. All large deposits must have a written explanation from the borrower as to the source of the funds as well as documentation of the funds.

## **Large Deposits**

Large deposit verification applies to purchase transactions only. Refinance transactions are subject to underwriter discretion to ensure that any borrowed funds are considered in the underwriting of the loan file.

If funds from a large deposit are needed to complete the purchase transaction (that is, are used for the down payment, closing costs, or financial reserves), the underwriter must document that those funds are from an acceptable source. Occasionally, a borrower may not have all of the documentation required to confirm the source of a deposit. In those instances, the underwriter must use reasonable judgment based on the available documentation as well as the borrower's debt-to-income ratio and overall income and credit profile. Examples of acceptable documentation include the borrower's written explanation, proof of ownership of an asset that was sold, or a copy of a wedding invitation to support receipt of gift funds. The underwriter must place in the loan file written documentation of the rationale for using the funds.

For purchase transactions:

- Deposits of 50% or less of the combined total monthly qualifying income of all borrowers do not need to be sourced.
- Deposits greater than 50% of the combined total monthly qualifying income of all borrowers must be sourced.
- When a deposit contains both sourced and unsourced, only the unsourced portion must be used in calculating whether a deposit meets the 50% definition.
  - Example #1 – borrower has \$4000 a month total qualifying income and a deposit of \$3000 showing on his bank statement. \$2500 of that deposit is sourced as coming from the borrowers tax refund, therefore only \$500 would have to be considered. \$500 is 12.5% of the borrowers qualifying income and therefore the deposit is not considered a large deposit and the entire amount may be used for qualifying.
  - Example #2 – borrower has \$4000 a month total qualifying income and a deposit of \$3000 showing on his bank statement. \$500 of that deposit is sourced as coming from the borrowers tax refund, therefore \$2500 would have to be considered. \$2500 is 63% of the borrowers qualifying income and therefore the unsourced part of the deposit must be removed from consideration as it is considered an unsourced large deposit.
- When an adjusted deposit/balance is necessary, the adjusted amount must be used for underwriting purposes and must be entered into DU at the reduced amount.

If the source of a large deposit is readily identifiable on the account statement(s), such as a direct deposit from an employer (payroll), the Social Security Administration, or IRS or state income tax refund, or a transfer of funds between verified accounts, and the source of the deposit is printed on the statement, CMG does not need to obtain further explanation or documentation. However, if the source of the deposit is printed on the statement, but the underwriter still has questions as to whether the funds may have been borrowed, additional documentation should be obtained.

## **H-3 – Sales Contract Deposit**

The deposit on the sales contract for the purchase of the subject property is an acceptable source of funds for both the down payment and the closing costs.

Earnest Money Deposit listed on the sales contract is to be verified in the following situations:

- When the borrower needs these funds to demonstrate sufficient funds to close

- When the funds are needed to establish minimum borrower contribution limits
- When the amount of the EMD exceeds 2%
- When the borrower is receiving a refund of the cash deposit at closing
- The transaction represents and Identity of Interest; in that instance the EMD must be verified as being placed on deposit

Ensure the deposit is not counted twice in the file (deducted from the funds to close and counted as an asset).

## **Verification of Source of Funds**

If the deposit is being used as part of the borrower's minimum contribution requirement, it must be verified that the funds are from an acceptable source.

Bank statements must evidence that the average balance for the past two months was large enough to support the amount of the deposit. If a copy of the cancelled deposit check is used to document the source of funds, the bank statements must cover the period up to (and including) the date the check cleared the bank account.

If it cannot be determined that these funds were withdrawn from the borrower's account, additional verification of the source and evidence that the funds have actually changed hands from the borrower to the seller, the realtor, the escrow agent, or the settlement attorney should be provided. Large earnest money deposits and deposits that exceed the amount customary for the area should be closely evaluated.

**Documentation for Receipt of the Deposit** Receipt of the deposit must be verified by either a copy of the borrower's canceled check or a written statement from the holder of the deposit.

## H-4 – Gift Funds

Gifts are permitted for most programs. See Loan Program Matrix for minimum down payment requirements and acceptability of gifts for closing.

### **Acceptable Donors**

A gift can be provided by:

- A relative (defined as the borrower's spouse, child or other dependent or by any other individual who is related to the borrower by blood, marriage, adoption, or legal guardianship), or
- A fiancé or domestic partner

The donor may not be, or have any affiliate with, the builder, the developer, the real estate agent, or any other interested party to the transaction.

### **Documentation Requirements**

Gifts must be evidenced by a letter signed by the donor, called a gift letter. The gift letter must:

- Specify the dollar amount of the gift.
- Specify the date the funds were transferred.
- Include the donor's statement that no repayment is expected.
- Indicate the donor's name, address, telephone number, and relationship to the borrower

When a gift from a relative or domestic partner is being pooled with the borrower's funds to make up the required minimum cash down payment, the following items must also be included:

- A certification from the donor stating that he or she has lived with the borrower for the past 12 months and will continue to do so in the new residence.
- Documents that demonstrate a history of borrower and donor shared residency. The donor's address must be the same as the borrower's address. Examples include but are not limited to a copy of a driver's license, a bill, or a bank statement.

**Verifying Donor Availability of Funds and Transfer of Gift Funds**

The 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,
- a 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.

The balance of the liquid asset account entered in the loan application must be adjusted accordingly to prevent duplicate entry of funds.

For example, if the borrower’s verified checking account reflects a balance of \$15,000, and \$5,000 of that amount was from a gift, the checking account balance should be adjusted to reflect \$10,000, and the \$5,000 should be entered separately as a gift.

When a gift is entered in Section II as a source of down payment, the funds are not included in the available funds.

Table H-4-A: Minimum Borrower Contribution Requirements for DU Loans

LTV, CLTV, or HCLTV Ratio	Minimum Borrower Contribution Requirement from Borrower’s Own Funds for DU Loans	
80% or less	One- to four-unit principal residence	A minimum borrower contribution from the borrower’s own funds is not required. All funds needed to complete the transaction can come from a donated gift or grant.
80% - 95%	One-unit principal residence	A minimum borrower contribution from the borrower’s own funds is not required. All funds needed to complete the transaction can come from a donated gift or grant.
	Two- to four-unit principal residence Second Home	The borrower must make a 5% minimum borrower contribution from his or her own funds. After the minimum borrower contribution has been met, donated gifts or grants can be used to supplement the down payment, closing costs, and reserves.
95.01 – 97%	1 unit primary residence only No High Balance Fixed Rate Only	All funds for the downpayment can come from gift as per Fannie Mae Selling Guide. However, gift funds may not be used for reserves regardless of Fannie Mae/DU acceptance.

Note: High Balance not permitted for LTV/CLTV/HCLTV > 95%.

**H-5 – Gift of Equity**

A “gift of equity” refers to a gift provided by the seller of a property to the buyer. The gift represents a portion of the seller’s equity in the property. The gift of equity is transferred to the buyer as a credit in the transaction.

A gift of equity is permitted for purchase money transactions for principal residences.

**Acceptable Donors**

A gift of equity can be provided by:

- A relative, defined as the borrower’s spouse, child, or other dependent, or by
- Any other individual who is related to the borrower by blood, marriage, adoption, or legal guardianship.

- A fiancé, fiancée, or domestic partner.

The donor may not be, or have any affiliation with, the builder, the developer, the real estate agent, or any other interested party to the transaction.

### **Documentation Requirements**

The following documents must be retained in the loan file:

- A signed gift letter
- The HUD-1 Settlement Statement listing the gift of equity.

## H-6 – Retirement Accounts

Vested funds from an individual retirement account (IRA) and tax-favored retirement savings accounts (401K) are acceptable sources of funds for down payment, closing costs and reserves. When these funds are used for the down payment or closing costs, the applicable withdrawal penalties or income tax must be subtracted so that only the “net” withdrawal is counted.

### **Additional considerations for LP Loans (401(k), KEOGH, 403(b), and other IRS qualified employer plans:**

- Obtain all of the following:
  - Account statements covering a two-month period or a direct account verification (i.e. VOD) reflecting the vested balance or the percentage vested
  - See below for when evidence of liquidation is required\*
  - When evidence of liquidation is not obtained, the mortgage file must include documentation of the terms of the retirement plan showing that the borrower is permitted to make withdrawals regardless of current employment status in order to use the vested amount of an IRS-qualified employer retirement account for closing or reserves.
- \* When Assets are invested in stocks, bonds, mutual funds, US government securities, or other securities are needed for closing, evidence of liquidation is required unless the combined value of the assets is at least 20% greater than the amount from these assets needed for closing.
- **Note for LP loans run through prior to December 14, 2015:** Retirement accounts used for reserves may be counted at 70% of the vested balance minus any outstanding loans against the asset. In lieu of the 70% requirement, the vested amount less outstanding loans secured by the account funds may be reduced by the minimum federal income tax withholdings required by the IRS. In all cases, LP Findings, LP Doc Matrix, and Freddie Mac Selling Guide requirements must be met and a valid AUS obtained.

### **Additional consideration for DU loans (B3-4.3-03: Retirement Accounts)**

- The lender must verify the ownership of the account and confirm that the account is vested and allows withdrawals regardless of current employment status.
- If the retirement assets are in the form of stocks, bonds, or mutual funds, the account must meet the requirements of H-7: Stocks, Stock Options, Bonds, and Mutual Funds, for determining value and whether documentation of the borrower’s actual receipt of funds is required when used for the down payment and closing costs. When funds from retirement accounts are used for reserves, Fannie Mae does not require the funds to be withdrawn from the account(s).

## H-7 – Stocks, Bonds, and Mutual Funds

Stocks, government bonds, and mutual funds are acceptable sources of funds for the down payment, closing costs and reserves provided their value can be verified. 100% of the value may be used for reserves.

If funds are being liquidated for closing, CMG/correspondent must verify:

- The borrower's ownership of the asset
- The value of the asset at the time of sale or liquidation (see chart)
- The borrower's actual receipt of funds realized from the sale or liquidation must be documented for all LP loans as per the LP Doc Matrix. For DU loans if the lender documents that the value of the asset is at least 20% more than the funds needed for the borrower's down payment and closing costs, no documentation of liquidation is required. Otherwise, documentation of the borrower's actual receipt of funds realized from the sale or liquidation must be obtained.

Reminder: Non-vested assets are not eligible for down payment, closing costs, or reserves.

Table H-7-A: Determining the Value of Stocks, Bonds, and Mutual Funds

Asset Type	Determining the Value of the Asset
Stocks and Mutual Funds	<p>CMG/correspondent must determine the value of the asset at the time of sale or liquidation (net of any margin accounts) by obtaining either:</p> <ul style="list-style-type: none"> <li>• The most recent monthly or quarterly statement from the depository or investment firm, or</li> <li>• A copy of the stock certificate, accompanied by a newspaper stock list that is dated as of or near the date of the loan application.</li> </ul>
Government Bonds	The value of government bonds must be based on their purchase price unless the redemption value can be documented.
Stock Options / Restricted Stock	Stock options and non-vested restricted stock are not eligible for use as reserves. Stock with limitations on its accessibility (e.g., restricted stock which has not vested and been distributed to the recipient) is <b>not</b> eligible.

## H-8 – Employer Assistance

For owner-occupied transactions, funds provided by an employer are an acceptable source of funds. Borrowers must use their own funds to meet the minimum borrower contribution requirement. The employer funds can be used for paying part of the closing costs, supplementing financial reserves, and supplementing the borrower's down payment.

Funds must come directly from the employer. Funds received from a company-affiliated credit union are not acceptable.

### Forms of Employer Assistance

The employer assistance may be in the form of:

- A grant
- A direct, fully repayable second mortgage or unsecured loan,
- A forgivable second mortgage or unsecured loan,
- A deferred-payment second mortgage or unsecured loan, or
- Mortgage payment assistance.

When employer assistance is extended as a secured second mortgage, the transaction must satisfy Fannie Mae eligibility criteria for mortgages that are subject to subordinate financing.

If the secured second mortgage does not require regular payments of either principal and interest or interest only, the CMG/correspondent does not need to calculate an equivalent payment for consideration as part of the borrower's monthly debt. If regular payments are required for the secured second mortgage, the payments must be included in the calculation of the debt-to-income ratio.

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**Documentation Requirements**

CMG/correspondent must document the following:

- That the program is an established company program, not just an accommodation developed for an individual employee.
- The dollar amount of the employer’s assistance and the terms of any loan agreement.
- The terms of any other employee assistance being offered to the borrower (such as relocation benefits or gifts).
- That the borrower received the employer assistance funds directly from the employer.

**H-9 – Anticipated Sales Proceeds**

If the borrower’s currently owned home is listed for sale but has not been sold, CMG/correspondent may qualify the borrower on the basis of anticipated sales proceeds.

The actual proceeds received by the borrower must be documented.

**Determining the Amount of Net Proceeds**

The following table describes how to determine the amount of net proceeds based on borrower’s anticipated equity:

Table H-9-A: Net Proceeds Calculations

Sales Price Established?	Net Proceeds Calculation
YES	Sales price – (sales costs + all liens) = Estimated Proceeds
NO	90% of Listing Price – All Liens = Estimated Proceeds. Note: the 10% adjustment factor that is applied to the listing price must be changed depending on market conditions.

When full REO data is entered, DU automatically calculates the estimated net equity from properties marked Pending Sale in Section VI R using the following formula:

*(Present Market Value × 90%) – Amount of Mtgs. & Liens*

However, because full REO data is not required, CMG/correspondent can calculate the net equity outside of DU and enter the amount (positive or negative) as Net Equity in Asset Section.

If net equity is calculated from data in REO Section and is also entered in Asset Section, DU will use the amount from Section VI A. (Please check Destiny and DU to make sure it asset is only being counted 1 time)

If a bridge loan is obtained, the amount of the bridge loan should be subtracted from the net proceeds.

- When the net equity is positive, DU will add the amount to the funds available for closing.
- When the net equity is negative, DU will subtract the amount from the funds available for closing.

Obtain a copy of the HUD1 settlement sheet at closing to verify actual amount of proceeds and confirm sufficient to cover funds borrowers need at closing.

**Sales Proceeds Needed for Down Payment and Closing Costs**

If the proceeds from the sale of a currently owned home are needed for the down payment and closing costs on the new house, CMG/correspondent must verify the source of funds by obtaining a copy of the fully executed HUD-1 Settlement Statement on the existing home before, or simultaneously with, the settlement on the new home, showing sufficient net cash proceeds to consummate the purchase of the new home.

## **Corporate Relocation Plans**

When the borrower's employer assumes responsibility for paying off the existing mortgage in connection with a corporate relocation plan, a copy of the executed buyout agreement must be obtained to document the source of funds. A photocopy of a sales contract or a listing agreement is not considered an acceptable source of verification of proceeds from the sale.

## **H-10 – Sale of Personal Assets**

Proceeds from the sale of personal assets are an acceptable source of funds for the down payment, closing costs, and reserves provided the individual purchasing the asset is not a party to the property sale transaction or the mortgage financing transaction.

### **Documentation Requirements**

CMG/correspondent must document the following:

- The borrower's ownership of the asset.
- The value of the asset, as determined by an independent and reputable source.
- The transfer of ownership of the asset, as documented by either a bill of sale or a statement from the purchaser.

The borrower's receipt of the sale proceeds from documents such as deposit slips, bank statements or copies of the purchaser's cancelled check

Depending on the significance of the funds in question, CMG/correspondent may accept alternatives to this required documentation, particularly when the proceeds of the sale represent a minor percentage of the borrower's overall financial contribution.

## **H-11 – Rent Credit (Lease Purchase or Option to Purchase)**

Rent credit for option to purchase is an acceptable source of funds towards the down payment. Credit for the down payment is determined by calculating the difference between market rent and the actual rent paid for the past 12 months. The market rent is determined by the appraiser in the appraisal for the subject property. The following documentation is required:

- A copy of the rental/purchase agreement evidencing a minimum original term of 12 months, clearly stating the monthly rental amount and specifying the terms of the lease
- Copies of the borrower's cancelled checks or money order receipts for the last 12 months evidencing rental payments.
- Market rent as determined by the subject property appraisal.

## **H-12 – Business Accounts**

Business funds may be used for down payment, closing costs and reserves if the borrower is a 100% owner of the business and appropriate evidence can be provided that shows the borrower as the owner of the account. Additionally, a cash flow analysis must be completed by the underwriter to determine that the withdrawal of funds will not negatively affect the business.

## **H-13 – Cash on Hand**

This is not an acceptable source of funds for the down payment or closing costs.



## Part I – Liability Analysis

### I-1 – Debt-to-Income Ratio

Debt to income ratios, which consist of two components, monthly housing expense and the total of all other monthly debt obligations, are used to compare the borrower's anticipated monthly housing expense and total monthly debt obligations to his or her stable monthly gross income. Long term debt, and some that represent significant short term debt, must be taken into consideration in developing a borrower's qualifying ratio.

#### **Pay Down of Debt:**

Payoff or pay down of debt solely to qualify must be carefully evaluated and considered in the overall loan analysis. The borrower's history of credit use should be a factor in determining whether the appropriate approach is to include or exclude debt for qualification. Generally:

- Installment loans that are being paid off or paid down to 10 or fewer remaining monthly payments do not need to be included in the borrower's long-term debt.
- Revolving debt cannot be paid down to qualify.
- For conventional conforming loans underwritten with either DU or LP, underwriter has discretion upon review the overall loan analysis to determine if a revolving debt is eligible to be paid off to qualify and if so, whether it must be closed.

### I-2 – Monthly Debt

CMG/correspondent's risk analysis must include an evaluation of liabilities that may affect the borrower's ability to repay the mortgage obligation.

For each liability, CMG/correspondent must determine the unpaid balance, the terms of repayment, and the borrower's payment history. If the credit report does not contain a reference for each significant open debt shown on the application, separate credit verification must be provided.

The section describes obligations that should be considered when underwriting the loan, including:

- Alimony/Child Support/Separate Maintenance Payments
- Authorized User Accounts
- Business Debt in Borrower's Name
- Court-Ordered Assignment of Debt
- Co-Signed Loans
- Deferred Installment Debt
- Federal Income Tax Installment Agreements (DU Loans)
- Home equity lines of credit
- Installment Debt
- Lease Payments
- Loans Secured by Financial Asset
- Open 30-day Charge Accounts
- Revolving Charges
- Qualifying Impact of Other Real Estate Owned

#### **Alimony/Child Support/Separate Maintenance Payments**

When the borrower is required to pay alimony, child support, or maintenance payments under a divorce decree, separation agreement, or any other written legal agreement—and those payments must continue to be made for more

than ten months—the payments must be considered as part of the borrower’s recurring monthly debt obligations. However, voluntary payments do not need to be taken into consideration.

**For DU Loans:** For alimony obligations, the lender has the option to reduce the qualifying income by the amount of the alimony obligation in lieu of including it as a monthly payment in the calculation of the DTI ratio. If the lender exercises this option, a copy of the divorce decree, separation agreement, court order or equivalent documentation confirming the amount of the obligation must be obtained and retained in the loan file. **Note:** For loan casefiles underwritten through DU, when using the option of reducing the borrower’s monthly qualifying income by the monthly alimony payment, enter the adjusted income figure as the income amount in DU.

### **Assumption with No Release of Liability**

The debt on a previous residence may be excluded from long term debt with evidence that the borrower no longer owns the property. The following documents are required:

Copy of documents transferring ownership of the property;

- The assumption agreement executed by the transferee; and
- Evidence that the mortgage is current.

### **Authorized User Accounts**

When the credit report contains authorized user accounts, additional evaluation is necessary to ensure the credit score is an accurate reflection of our borrower’s ability to manage credit, regardless of the AUS decision. Compare the authorized user accounts to the borrower’s primary accounts to ensure there is a satisfactory relationship between the primary borrower’s accounts and the authorized user accounts.

Authorized user accounts do not need to be counted in the borrowers DTI UNLESS, the borrower states that they have been making the payments on the account; the tradeline belongs to the borrowers spouse and the spouse is not on the loan. You must make every effort to determine who the owner of the account is to see if it needs to be included in the DTI. You must make sure you include the account in LOS and make sure DU/LP is reading the account in the ratios. DU will automatically not count any “AA” accounts in the ratios. You may need to manually add the debt so it is counted.

If the account shows any delinquencies (no matter who the owner of the account is), you must count the debt in the DTI and any past due amount must be paid current prior to or at closing.

### **Business Debt in a Borrower’s Name**

When a self-employed borrower claims that a monthly obligation that appears on his or her personal credit report is being paid by the borrower’s business, CMG/correspondent must confirm that it verified that the obligation was actually paid out of company funds and that this was considered in its cash flow analysis of the borrower’s business.

The account payment does NOT need to be considered as part of the borrower’s individual recurring monthly debt obligations if:

- The account in question does not have a history of delinquency,
- The business provides acceptable evidence that the obligation was paid out of company funds (such as 12 months of cancelled company checks), and
- CMG/correspondent’s cash flow analysis of the business took payment of the obligation into consideration.

The account payment DOES need to be considered as part of the borrower’s individual recurring monthly debt obligations in any of the following situations:

- If the business does not provide sufficient evidence that the obligation was paid out of company funds.
- If the business provides acceptable evidence of its payment of the obligation, but CMG/correspondent’s cash flow analysis of the business does not reflect any business expense related to the obligation (such as an interest expense—and taxes and insurance, if applicable—equal to or greater than the amount of interest that one would reasonably expect to see given the amount of financing shown on the credit report and the age of the loan). It is reasonable to assume that the obligation has not been accounted for in the cash flow analysis.

- If the account in question has a history of delinquency. To ensure that the obligation is counted only once, the net income of the business should be adjusted by the amount of interest, taxes, or insurance expense, if any, that relates to the account in question.

## **Court Order Assignment of Debt**

If the obligation to make payments on a debt has been assigned to another person by court order, such as a divorce decree, the payment may be excluded from long term debt. The following documents are required:

### **Copy of the court order or divorce decree**

- For mortgage debt, a copy of the documents transferring ownership of the property; or
- If a transfer of ownership has not taken place, late payments associated with the loan repayment of the debt owing on the mortgaged property should be taken into account when reviewing the borrower's credit profile.

## **Co-Signed Loans**

When a borrower co-signs for a loan to enable another party (the primary obligor) to obtain credit—but is not the party who is actually repaying the debt—the borrower has a contingent liability.

The liability does NOT need to be considered as part of the borrower's recurring monthly debt obligations if CMG/correspondent can verify a history of documented payments on the co-signed debt by the primary obligor and ascertain that there is not a history of delinquent payments for that debt (since this could be an indication that the co-signer might have to assume the obligation at some point in the future). Documentation must be provided that the person making payments is the joint obligor on the loan.

The underwriter must verify the last 12 months payments with copies of cancelled checks or bank statements. The account cannot have the borrowers name on it. If bank statements are provided, you should not see deposits (other than payroll) being made into the account prior to the check clearing the primary obligor's account. Use underwriter discretion to see if it looks like someone is giving the primary obligor money to make the payment.

The liability DOES need to be considered as part of the borrower's recurring monthly debt obligations if:

- Payment by the primary obligor cannot be sufficiently documented,
- A sufficient payment history has not been established for the debt, or
- The primary obligor has a history of being delinquent in making payments on the debt.

## **Debts Paid by Others:**

For DU loans certain debts can be excluded from the borrower's recurring monthly obligations and the DTI ratio:

- When a borrower is obligated on a non-mortgage debt -- but is not the party who is actually repaying the debt -- the lender may exclude the monthly payment from the borrower's recurring monthly obligations. This policy applies whether or not the other party is obligated on the debt, but is not applicable if the other party is an interested party to the subject transaction (such as the seller or realtor). Non-mortgage debts include installment loans, student loans, revolving accounts, lease payments, alimony, child support, and separate maintenance.
- When a borrower is obligated on a mortgage debt - but is not the party who is actually repaying the debt - the lender may exclude the monthly mortgage payment from the borrower's recurring monthly obligations if the party making the payments is obligated on the mortgage debt.

In order to exclude non-mortgage or mortgage debts from the borrower's DTI ratio, the lender must obtain the most recent 12 months' cancelled checks (or bank statements) from the other party making the payments that document a 12-month payment history with no delinquent payments.

For LPA loans, Freddie Mac will permit installment, revolving and lease payments to be excluded from the monthly DTI ratio when a party other than the Borrower has been making timely payments on the debt for the most recent 12 months and certain other requirements are met. Freddie Mac/LPA loans do not require that the Borrower be a cosigner or guarantor on the excluded debt.

## **Deferred Payment Accounts:**

Deferred installment debts, such as deferred student loans, must be included as part of the borrower's recurring monthly debt obligations. If the borrower's credit report does not indicate the monthly amount that will be payable at the end of the deferment period, copies of the borrower's payment letters or forbearance agreements must be obtained so that a monthly payment amount can be determined and used in calculating the borrower's total monthly obligations. Exceptions: For student loans, refer to I-2 Monthly Debt – Student Loans section.

## **Home Equity Lines of Credit (HELOC)**

When the mortgage that will be delivered to Fannie Mae also has a home equity line of credit (HELOC) that provides for a monthly payment of principal and interest or interest only, the payment on the HELOC must be considered as part of the borrower's recurring monthly debt obligations. If the HELOC does not require a payment, there is no recurring monthly debt obligation so CMG/correspondent does not need to develop an equivalent payment amount.

Freddie Mac (LPA) permits the use of 1.5% of the outstanding HELOC balance when the HELOC monthly payment amount is not captured in the Mortgage file documentation or on the credit report. However, documentation of the HELOC terms, including the payment amount, continues to be required for HELOC's originated concurrently with the First Lien Mortgage.

## **Installment Debt**

All installment debt that is not secured by a financial asset must be considered part of the monthly debt obligations if there are more than ten monthly payments remaining.

## **Lease Payments**

The monthly payment associated with a lease must be included in the total monthly obligations regardless of the number of payments remaining until the end of the lease term. If the lease is near the end of its term the new lease payment should be determined and included in the total monthly debts.

## **Loans Secured by Retirement Savings Plans**

Payments on loans secured by the borrower's 401(k) or SIP (Savings Investment Plan) are not included in long term debt because they are voluntary payments; however, the underwriter should consider these payments in terms of their possible impact on cash flow and debt ratios. The borrower should indicate plans for debt repayment if the inclusion of a 401(k) or SIP loan payment in the monthly debts would result in a very high total debt-to-income ratio or negative cash flow.

## **Open 30-Day Accounts**

On all open 30-day accounts such as American Express or Diner's Club, the payment is not counted in the borrower's DTI ratio. For open 30-day charge accounts that do not reflect a monthly payment on the credit report, or 30-day accounts that reflect a monthly payment that is identical to the account balance, the underwriter must verify borrower funds to cover the account balance. The verified funds must be in addition to any funds required for closing costs and reserves.

Note: DU will include the balance of the 30-day charge accounts on the loan application in the Reserves Required to be Verified amount shown on the DU Underwriting Findings report. However, for transactions that do not require the verification of reserves, the balance of 30-day charge accounts in the Reserves Required to be Verified amount will be reduced by any cash out the borrower will receive through the transaction.

If the borrower paid off the account balance prior to closing, the underwriter may obtain proof of payoff in lieu of verifying funds to cover the account balance.

## **Revolving Debt**

The monthly payment on every revolving and open-end account with a balance, regardless of the apparent number of payments remaining, must be included in the borrower's long-term debt and ratio calculation. Also, refer to Section I-1 Debt-to-Income Ratio, Paying off/down Debt.

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If the credit report does not reflect a payment on a currently reporting liability, and the actual payment cannot be determined, a minimum payment may be calculated using the greater of \$10.00 or 5% of the outstanding balance.

## **Federal Income Tax Installment Agreements (DU & LPA loans)**

Fannie Mae will now allow the monthly payment due under an IRS income tax installment agreement to be included in the DTI ratio (in lieu of payment in full), provided the following requirements are met:

- There is no indication that a Notice of Federal Tax Lien has been filed against the borrower in the county in which the subject property is located.
- The lender must obtain the following documentation:
  - an approved IRS installment agreement with the terms of repayment, including the monthly payment amount and total amount due; an
  - evidence the borrower is current on the payments associated with the tax installment plan. Acceptable evidence includes the most recent payment reminder from the IRS, reflecting the last payment amount and date and the next payment amount owed and due date. At least one payment must have been made prior to closing

## **Student Loans**

For student loans -

- If a monthly student loan payment is provided on the credit report, the lender may use that amount for qualifying purposes. If the credit report does not reflect the correct monthly payment, the lender may use the monthly payment that is on the student loan documentation (the most recent student loan statement) to qualify the borrower.
- If the credit report does not provide a monthly payment for the student loan, or if the credit report shows \$0 as the monthly payment, the lender must determine the qualifying monthly payment using one of the options below.
  - If the borrower is on an income-driven payment plan, the lender may obtain student loan documentation to verify the actual monthly payment is \$0. The lender may then qualify the borrower with a \$0 payment.
  - For deferred loans or loans in forbearance, the lender may calculate
    - a payment equal to 1% of the outstanding student loan balance (even if this amount is lower than the actual fully amortizing payment), or
    - a fully amortizing payment using the documented loan repayment terms.

Note: CMG does permit Fannie Mae's Student Loan Cash-Out Refinance.

- For LPA Loans –
  - For student loans in repayment, deferment or forbearance:
    - If the monthly payment amount is greater than zero, use the monthly payment amount reported on the credit report or other file documentation, or
    - If the monthly payment amount reported on the credit report is zeros, use 0.5% of the outstanding balance, as reported on the credit report.
  - **Student loan forgiveness, cancellation, discharge and employment-contingent repayment programs.** The student loan payment may be excluded from the monthly debt payment-to-income ratio provided the Mortgage file contains documentation that indicates the following:
    - The student loan has 10 or less monthly payments remaining until the full balance of the student loan is forgiven, canceled, discharged or in the case of an employment-contingent repayment program, paid, or

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- The monthly payment on a student loan is deferred or is in forbearance and the full balance of the student loan will be forgiven, canceled, discharged or in the case of an employment-contingent repayment program, paid, at the end of the deferment or forbearance period  
AND
- The Borrower currently meets the requirements for the student loan forgiveness, cancellation, discharge or employment-contingent repayment program, as applicable, and the lender is not aware of any circumstances that will make the Borrower ineligible in the future
- Refer to LPA Doc Matrix and Selling Guide 5401.2 for additional guidance.

### **Qualifying Impact of Other Real Estate Owned**

Agency reserve requirements must be met.

## Part J – Property Eligibility

### J-1 – Eligible Collateral

- Single Family Dwellings, including townhomes and row homes
- 2-4 Family Dwellings
- Condominiums
- Site Condominiums
- Planned Unit Developments
- Modular homes are not considered manufactured and are eligible under the guidelines for one-unit properties. The housing must assume the characteristics of site built housing, must be legally classified as real property, and must conform to all local building codes in the jurisdiction in which they are permanently located.
- Unique homes such as log homes will be reviewed on an exception basis; like comparables must be provided
- Manufactured homes built less than 20 years ago and meeting all other requirements (see J-3 Manufactured Homes)
- Leasehold Estates (see J-4 Leasehold Estates)

### J-2 – Ineligible Collateral

- Manufactured homes more than 20 years old.
  - Manufactured homes older than 20 years may be considered on an exception basis through Corporate Credit.
- Manufactured homes in certificate of title non-surrender states including, but not limited to, New York, New Jersey, and Louisiana
- Except as permitted in the MH Advantage guideline addendum, 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. For MH Advantage eligibility refer to separate guideline addendum.
- Mixed Use Properties
- Multi-family properties with more than four units
- Agricultural-type properties (such as farms, orchards or ranches) where income is being produced from the property
- Properties not suitable for year-round occupancy unless all of the following criteria are met:
  - Property is located in an area where second homes are commonly not suitable for year-round occupancy
  - Property appraisal report uses comparable properties that are seasonally occupied, demonstrating that the subject's premises are acceptable to the market
  - Property is available for the exclusive use and enjoyment of the borrower(s)
- Properties not accessible by roads meeting local standards
- Non-warrantable Condominiums
- Co-ops
- Properties not typical for the area and lacking comparables (i.e. geodesic homes, log cabins, etc.)
- Property Flip when Non-Arm's Length Transaction
- Properties with:
  - Any health/safety issues or repairs needed;
  - Less than average condition;
  - No permanent heating source;
  - Private Transfer Fee Covenants;
  - Resale restrictions (Age restricted properties allowed)
- Timeshares

## J-3 – Manufactured Homes

Manufactured homes are permitted for financing through Fannie Mae with DU Approve/Eligible or Freddie Mac with LPA Accept and must be properly identified on the DU findings as a manufactured home (not SFR).

Primary residence purchase and limited cash out may not exceed 95% LTV for fixed rate. Primary Residence cash out transactions must have a term of 20 years or less and max LTV is 65% for a fixed rate transactions. Second homes are only eligible for purchase and limited cash out refinances and are subject to a max LTV of 90%/DU and 85%/LPA for fixed rate mortgages.

Note: Expanded manufactured home opportunities via the Fannie Mae MH Advantage program are permitted as noted in the separate MH Advantage guideline addendum.

Manufactured Homes are identified by two certifications:

- HUD Data Plate (located inside home, which is paper not a plate)
  - HUD "Red Tag" also known as a certification label (located outside home)
- If both plate and tag are missing: Home is NOT eligible for financing
  - If HUD plate is missing and tag is present: Home is NOT eligible for financing
  - If HUD plate is present and HUD tag is missing: Home is eligible if IBTS (Institute for Building Technology and Safety) letter is received. Both plate and IBTS letter must verify serial number.

Mortgage insurance is NOT delegated. The MI company must underwrite and approve full package.

The following property types are **ineligible** for manufactured home financing:

- Investment properties
- Temporary buydowns
- Single-width manufactured homes
- Except as noted in the separate MH Advantage guideline addendum, new manufactured homes (only existing manufactured homes permitted)
  - 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.
- Leaseholds
- Properties with a chattel lien on the home plus a real property lien on the land
- HUD tags have been removed
- Homes in manufactured home parks where the borrower does not own the land
- Previously moved units
- Property flips where the property was purchased within 180 days of closing except where the seller is a government agency, bank, GSE, or mortgage insurer.
- Manufactured homes built more than 20 years ago
- If the site or manufactured home is substantially non-conforming with the neighborhood without at least two available comparables. Comparable sales cannot be created by combining vacant land sales with the contract purchase price.

The following requirements apply to all manufactured home appraisals:

- The manufactured home appraisal must be completed on Form 1004C, Manufactured Home Appraisal Report. Manufactured homes are not eligible for streamlined appraisals.



- For purchase money mortgages, CMG/Correspondent must provide the appraiser with a complete copy of the executed contract for sale of the manufactured home and land, or if the manufactured home and land are being purchased separately, the executed contract for each.
- The value conclusion cannot include any non-realty items such as insurance, warranties, furniture, etc.
- The appraiser must use a minimum of two comparable sales of similar manufactured homes.
- The appraiser may use either site-built housing or a different type of factory-built housing as the third comparable sale. When site-built housing or a different type of factory-built housing are used as the third comparable, the appraiser must:
  - Explain why site-built housing or a different type of factory-built housing is being used for the third comparable sale, and
  - Make (and support) appropriate adjustments in the appraisal report.

### **Underwriting/Property Considerations & Determining Property Value for Manufactured Home Refinances**

- Manufactured housing underwriting considerations: <https://www.fanniemae.com/content/guide/selling/b5/2/03.html>
- Manufactured housing appraisal requirements: <https://www.fanniemae.com/content/guide/selling/b4/1.4/01.html>
- Manufactured Home Property Eligibility Requirements: <https://www.fanniemae.com/content/guide/selling/b2/3/02.html>

## J-4 – Leasehold Estates

A leasehold estate is a form of ownership in which a lessee holds rights of real property by title from a lessor or landlord for a given length of time. CMG will permit leasehold estates in areas in which this type of property ownership has received market acceptance. The mortgage must be secured by the property improvements and the borrower's leasehold interest in the land.

The following property types are not eligible for CMG financing when located on a leasehold estate:

- Manufactured Homes
- Condos
- Properties located on Indian Land

To be eligible for financing, the leasehold estate and the improvements must

- Constitute real property,
- Be subject to the mortgage lien, and
- Be insured by the title policy.

The leasehold estate and the mortgage must not be impaired by any merger of title between the lessor and lessee or by any default of a sub-lessor.

To evaluate a lease associated with a leasehold estate mortgage loan, an underwriter must complete a Leasehold Estate Evaluation Checklist ensuring compliance with the following requirements:

- The term of the leasehold estate must run for at least five years beyond the maturity date of the mortgage, unless fee simple title will vest at an earlier date in the borrower, a homeowners' association, or a co-op corporation.

- The lease must provide that the leasehold can be assigned, transferred, mortgaged, and sublet an unlimited number of times either without restriction or on payment of a reasonable fee and delivery of reasonable documentation to the lessor. The lessor may not require a credit review or impose other qualifying criteria on any assignee, transferee, mortgagee, or sub-lessee.
- The lease must provide for the borrower to retain voting rights in any homeowners' association.
- The lease must provide that the borrower will pay taxes, insurance, and homeowners' association dues (if applicable), related to the land in addition to those he or she is paying on the improvements.
- The lease must be valid, in good standing, and in full force and effect in all respects.
- The lease must not include any default provisions that could give rise to forfeiture or termination of the lease, except for nonpayment of the lease rents.
- The lease must include provisions to protect the mortgagee's interests in the event of a property condemnation.
- The payment to the leaseholder must be included in the borrower's payment. It must be included in the payment collected on behalf of CMG by our servicer when a standard escrow account is established.
- The lease must provide CMG with
  - The right to receive a minimum of 30 days' notice of any default by the borrower, and
  - The option to either cure the default or take over the borrower's rights under the lease.
  - All lease rents, other payments, or assessments that have become due must be paid.
  - The borrower must not be in default under any other provision of the lease nor may such a default have been claimed by the lessor.

**Option to Purchase Fee Interest**

The lease may, but is not required to, include an option for the borrower to purchase the fee interest in the land. If the option is included, the purchase must be at the borrower's sole option, and there can be no time limit within which the option must be exercised. If the option to purchase the fee title is exercised, the mortgage must become a lien on the fee title with the same degree of priority that it had on the leasehold. Both the lease and the option to purchase must be assignable.

**Table J-4-A: Land Purchase Price Requirements for Option to Purchase Fee Interest**

Status of Property Improvements	Purchase Price of Land
Already constructed at the time the lease is executed.	The initial purchase price should be established as the appraised value of the land on the date the lease is executed.
Already constructed at the time the lease is executed, and the lease is tied to an external index, such as the Consumer Price Index (CPI).	<p>The initial land rent should be established as a percentage of the appraised value of the land on the date that the lease is executed.</p> <p>The purchase price may be adjusted annually during the term of the lease to reflect the percentage increase or decrease in the index from the preceding year.</p> <p>Leases may be offered with or without a limitation on increases or decreases in the rent payments.</p>
Will be constructed after the lease is executed.	<p>The purchase price of the land should be the lower of the following:</p> <ul style="list-style-type: none"> <li>• The current appraised value of the land, or</li> <li>• The amount that results when the percentage of the total original appraised value that represented the land alone is applied to the current appraised value of the land and improvements.</li> </ul> <p>For example, assume that the total original appraised value for a property was \$160,000, and the land alone was valued at \$40,000 (thus representing 25% of the total appraised value). If the current appraised value is \$225,000, \$50,000 for land and \$175,000 for improvements, the purchase price would be \$50,000 (the current appraised value of the land, because it is less than 25% of \$225,000).</p>

	<p>Note: If the lease is tied to an external index, the initial land value may not exceed 40% of the combined appraised value of the land and improvements.</p>
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## Appraisal Requirements

The appraisal requirements for leasehold interest properties are as follows:

- Appraisers must develop a thorough, clear, and detailed narrative that identifies the terms, restrictions, and conditions regarding lease agreements or ground leases and include this information as an addendum to the appraisal report.
- Appraisers must discuss what effect, if any, the terms, restrictions, and conditions of the lease agreement or ground lease have on the value and marketability of the subject property.

When there are a sufficient number of closed comparable property sales with similar leasehold interests available, the appraiser must use the property sales in the analysis of market value of the leasehold estate for the subject property. However, if not enough comparable sales with the same lease terms and restrictions are available, appraisers may use sales of similar properties with different lease terms or, if necessary, sales of similar properties that were sold as fee simple estates. The appraiser must explain why the use of these sales is appropriate, and must make appropriate adjustments in the Sales Comparison Approach adjustment grid to reflect the market reaction to the different lease terms or property rights appraised.

## J-5 – Appraisal Documentation

### **USPAP Compliance**

All appraisals must comply with the standards and practices established by the Uniform Standards of Professional Appraisals Practice (USPAP).

The appraiser must not have a direct or indirect interest, financial or otherwise, in the property or in the transaction. Selection criteria should ensure that the appraiser is independent of the transaction and is capable of rendering an unbiased opinion.

An appraisal prepared by an individual who was selected or engaged by a borrower, property seller, real estate agent or other interested party is not acceptable. "Re-addressed appraisals" or appraisal reports that are altered by the appraiser to replace any references to the original client with CMG/correspondent's name are not acceptable. Additionally, the borrower, property seller, real estate agent or other interested party is not allowed to select an appraiser from an approved appraiser list.

Effective internal controls require that only qualified and adequately trained underwriters, who are not involved in the loan production process, review appraisals. To maintain independence, the underwriter does not directly report to someone involved in loan production. The underwriting review must confirm the independence of the appraiser in addition to a comprehensive technical review of the appraiser's analysis prior to making a final credit decision.

**Appraisal Review Process**

CMG will use various fraud and valuation tools to provide data to the underwriter when reviewing appraisals. The data as well as the appraisal report will be reviewed when determining acceptability of the appraisal report.

**Rapid Appreciation**

Loans with excessive appreciation require a satisfactory explanation from the appraiser for the increase in value. Additional appraisal products may be required at the underwriters discretion based on a review of the increase, the explanation provided to support the increase, an analysis of market trends, and a review of information provided via automated valuation tools.

**J-6 – Appraisal Forms and Exhibits**

Table J-6-A: Appraisal Forms and Exhibits

Appraisal Form/Exhibit	Description
<u>FNMA 1004</u> - Uniform Residential Appraisal Report	This report is used to appraise single family properties and properties located in a PUD (including single family properties with an accessory unit). Includes both an interior and exterior inspection. In addition, appraisals for units in condo projects that consist solely of detached dwellings may be documented on Form 1004, if the appraiser includes an adequate description of the project and information about the homeowners' association fees and the quality of the project maintenance
<u>FNMA 1073</u> - Individual Condo Unit Appraisal Form	This form is used to appraise individual units located in an individual condominium unit. It includes both an interior and exterior inspection
<u>FNMA 1025</u> -Small Residential Income Property Report	This appraisal report is used for 2-4 unit properties and includes an interior and exterior inspection
<u>FNMA 2055</u> – Exterior-Only Inspection Residential	For appraisals of one-unit properties and units in PUDs based on exterior-only property inspection
<u>FNMA 1075</u> – Exterior-Only Inspection Individual Condo Unit	For appraisals on one-unit condo projects based on exterior-only property inspections
<u>FNMA 1004D</u> – Appraisal Update and/or Completion Report	For appraisal updates and/or completion reports for all one-to-four unit appraisal reports
<u>FHLMC Form 1000</u> – Single Family Comparable Rent Schedule	Freddie Mac - Rental information on completed appraisal forms (i.e., Form 1000, Single Family Comparable Rent Schedule or Form 72, Small Residential Income Property Appraisal Report, as applicable), in accordance with the requirements of Chapter 5306, must be included in the Mortgage file
<u>FNMA Form 216</u> – Operating Income Statement	Not required.
<u>FNMA Form 1007</u> – Single Family Comparable Rent Schedule	When the subject property will generate rental income, one of the following Fannie Mae forms must be used to support the income-earning potential of the property:

	<ul style="list-style-type: none"> <li>For one-unit properties: <i>Single-Family Comparable Rent Schedule</i> (Form 1007) (provided in conjunction with the applicable appraisal report), or</li> <li>For two- to four-unit properties: <i>Small Residential Income Property Appraisal Report</i> (Form 1025).</li> </ul>
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Reduced fieldwork options are possible for agency products based on AUS Findings and agency eligibility.

Note: Agency requirements for documenting gross monthly rent for lender reporting purposes must be met regardless of whether rental income is being used to qualify.

**Exhibits for Appraisals with Interior and Exterior Property Inspections**

The following exhibits must accompany appraisals with interior and exterior inspections:

- An exterior building sketch that indicates the dimensions
- Calculations demonstrating how the estimate for gross living area is derived,
- A street map showing the location of the subject property and all of the comparables used,
- Clear, descriptive photographs that show the front, back, and a street scene of the subject,

Interior photographs are required which at a minimum must include:

- The kitchen
- All bathrooms
- The main living area
- Examples of physical deterioration, if any exists
- Examples of recent updates, home improvements, upgrades, if they exist
- Clear, descriptive photographs that show the front of each comparable sale. Photos of listings and rentals are not required. Generally, photographs should be originals that are produced by photography or electronic imaging, however photographs from the Multiple Listing Service or from the appraiser’s file are acceptable if they are clear and descriptive,

The following exhibit is required for appraisals with exterior-only property inspections:

Street map that shows the location of both the subject property and the comparable

**J-7 – Appraisal Transfer**

Refer to Correspondent Selling Guide.

**J-8 – Appraisal Assessment**

CMG/correspondent is responsible for ensuring that appraisal reports are complete and that any changes to the report are made by the appraiser who originally completed the report. If CMG/correspondent has concerns with any aspect of the appraisal that result in questions about the reliability of the opinion of market value, CMG/correspondent must attempt to resolve its concerns with the appraiser who originally prepared the report. If CMG/correspondent is unable to resolve its concerns with the appraiser, a replacement report prior must be obtained to making a final underwriting decision on the loan. Any request for a change in the opinion of market value must be based on material and substantive issues and must not be made solely on the basis that the opinion of market value as indicated in the appraisal report does not support the proposed loan amount.

**J-9 – Appraisal Repairs**

Regardless of product, if an appraisal is required and that appraisal is subject to ANY repairs, the repairs noted need to be cured and a final inspection issued by the appraiser will be required.

## J-10 – Properties Subject to Age Restrictions

If a housing development has an age restriction, it must comply with one of the following Fair Housing Act exemptions:

**Government Housing Programs** - The prohibitions against discrimination on the basis of age or familial status do not apply with respect to dwellings provided under any STATE OR FEDERAL PROGRAM specifically designed and operated to assist the elderly or to house elderly persons. The Secretary of HUD must determine that the development meets this exemption.

### **Age Restrictions – 62 years of age or older**

The prohibitions against discrimination on the basis of age or familial status do not apply with respect to dwellings intended for, and solely occupied, by persons 62 years of age or older.

### **Age Restrictions – Any age restriction**

The prohibitions against discrimination on the basis of age or familial status do not apply with respect to dwellings intended and operated for occupancy by persons 55 years of age or older provided that all of the following apply:

- At least 80% of the occupied units are occupied by persons 55 years of age or older; and
- The housing facility or community publishes and adheres to policies and procedures that demonstrate the intent to provide housing to persons 55 years of age or older; and
- The housing facility or community can provide documentation for verification of occupancy, by means of:
  - o Reliable surveys and affidavits;
  - o Examples of published written policies and procedures for determination of compliance with the Fair Housing Act.

### **Required Documents for Age Restricted Properties**

When it is determined that a housing development is subject to age restrictions, the Homeowners Association must complete and sign the form Housing Developments Subject to Age Restrictions (see [Form 38](#)). By signing this form the association certifies that the housing development is in compliance with the Fair Housing Act.

## J-11 – Additional Appraisal Considerations: High Balance Transactions

For LPA High Balance transactions, lender must obtain an appraisal with an interior and exterior inspection that meets Freddie Mac requirements unless the Last Feedback Certificate includes an automated collateral evaluation offer stating that the Mortgage is eligible for collateral representation and warranty relief with an appraisal waiver and the lender has confirmed the eligibility and accepted the offer.

With Selling Guide Bulletin 18-01, Fannie Mae is removing the requirement for a field review (Form 2000 or 2000A) on properties valued at \$1,000,000 or more when the LTV, CLTV, or HCLTV ratio exceeds 75%. Lenders can take advantage of this change immediately. The field review messages will be removed with DU Version 10.2 (weekend of March 17, 2018). Until that time, lenders may disregard the messages.

## ***Part K – Geographic Restrictions***

### K-1 – Geographic Restrictions

CMG only lends in states where they are licensed to do so; for more information please visit CMG's NMLS Consumer Access page ([www.nmlsconsumeraccess.org](http://www.nmlsconsumeraccess.org)).

Refer to applicable Loan Matrix for any additional geographic restrictions.

[www.cmgfi.com](http://www.cmgfi.com)

Information in these guidelines is for credit policy guidance only and is not a complete representation of CMG Financial (NMLS #1820) Lending Policies. Information is accurate as of the date of publishing and is subject to change without notice. The Guidelines outlined apply to Agency loans submitted to DU or LP. In addition to applying these CMG-specific overlays, all loans submitted to DU/LP must comply with the DU/LP Findings and Fannie Mae/Freddie Mac requirements. To verify our state licenses, please log onto the following websites: <http://www.cmgfi.com/licensing.php> and [www.nmlsconsumeraccess.org](http://www.nmlsconsumeraccess.org)

## **Part L – Disaster Policy**

### **L-1 – General Information**

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When a property is located in a Disaster Area, the lender must verify the structure is sound and not negatively impacted by the Disaster. This must be verified prior to closing / purchasing the loan.

A list of affected counties published by FEMA for Individual Assistance is available at the following link:

<http://www.fema.gov/>

Correspondent clients will be required to furnish CMG with the proper recertification prior to loan purchase.

Refer to CMG's Disaster Area Policy on the [Seller Resources](#) section of the CMGfi website for additional details and requirements.

## Part M – Private Mortgage Insurance

### M-1 – General Information

Private Mortgage Insurance (PMI) is insurance coverage that protects the CMG/correspondent against loss in the event of a mortgage default. There are a number of private companies, which offer different types of coverage. Private Mortgage Insurance is required for all loans in excess of 80% LTV. An Escrow/Impound account must be established for the payment of private mortgage insurance unless a single premium was paid in full at closing.

The following types of MI policies are approved for use at CMG Financial:

- Borrower-Paid Monthly
- Borrower-Paid Single Premium
  - Single Premium MI can also be paid by a 3rd Party such as a Builder or Seller
- Lender-Paid Single Premium (LPMI)
- Single Premium Financed MI (Non-Refundable)

The following types of MI policies are currently **ineligible** at CMG Financial:

- Single Premium Financed MI (Refundable)
- Split Premium Monthly MI

For types of MI acceptable to CMG Correspondent please refer to the Correspondent Seller's Guide.

### M-2 – Approved Mortgage Insurance (MI) Companies

Generally speaking, mortgage insurance companies have their own set of underwriting criterion which must be considered when obtaining MI certs. A full takeout from the MI provider is required prior to issuing a clear to close.

For MI Companies acceptable to CMG Correspondent please refer to the Correspondent Seller's Guide.

### M-3 – Standard Coverage

Mortgage insurance coverage is to be provided based on the standard coverage levels required from the mortgage insurance company's rate card. Reduced coverage options will not be permitted.

Table M-3-A: MI Standard Coverage -

Fixed-rate, term ≤ 20 years	Fixed-rated, term > 20 years All ARMs
80.01% - 85% = 6%	80.01% - 85% = 12%
85.01% - 90% = 12%	85.01% - 90% = 25%
90.01% - 95% = 25%	90.01% - 95% = 30%
95.01% - 97% = 35%	95.01% - 97% = 35%

For manufactured homes, mortgage insurance coverage does not vary by term; however, for HomeReady loans with LTVs >90% the lower HomeReady standard coverage applies. See below chart for a summary:

Manufactured Homes – Conventional Conforming Fannie Mae Coverage Requirements				
Transaction Type	LTV Range			
	80.01-85%	85.01 – 90%	90.01 – 95%	>95%
Fixed Rate, ARM, any term	12%	25%	30%	n/a
HomeReady / Home Possible Manufactured Homes*	12%	25%	25%	n/a

\*Refer to the HomeReady & Home Possible Matrices for other eligibility criteria.

[www.cmgfi.com](http://www.cmgfi.com)



## M-4 – Monthly Premium

CMG will be selecting ZIP/ZOMP (Zero Initial Premium). This allows the borrower to pay no upfront mortgage insurance at the time of closing, however; they will be paying a monthly premium.

## M-5 – Single Premium

To provide an alternative to monthly MI, a single premium MI features a one-time premium that can be paid upfront by borrowers and provides a competitive alternative to no-MI financing options. Single premium MI can also be paid by a third party such as a builder or a seller, but cannot be paid by CMG. CMG will only be offering the non-refundable single premium option and the premium cannot be split.

One Time MI is a good option for:

- Borrowers who want the lowest possible monthly payment and have cash to use at closing or who wish to finance the premium into the loan amount
- Borrowers purchasing a home with builders and sellers willing to pay for the mortgage insurance
- Single premium MI loans provide coverage until the loan amortizes to 78% of the original value. A single premium is paid at closing by the borrower, typically by financing into the mortgage, and there are no monthly payments

### **Maximum GLTV (when financed premium exists)**

The Gross Loan to Value, or GLTV, is the:

(loan amount plus the financed premium)

(lesser of the purchase price or appraised value)

The maximum GLTV cannot exceed the published maximum LTV limits by program.

### **Maximum Loan Amount**

The loan amount, including the financed mortgage insurance, cannot exceed the published maximum loan amounts by program.

### **Program Eligibility**

- Single Family
- Owner Occupied
- Purchase and Rate and Term Refinances Only
- Not available for cash out if financing the single premium

## M-6 – Agency Paid Mortgage Insurance

### **Agency Paid Mortgage Insurance (EPMI & Imagin) –**

Available - must utilize specified program codes. No manufactured homes. Minimum LTV 80.01. This is NOT a "No MI" product as MI is obtained when the loan is sold to the applicable agency. Until that time, there is not MI coverage. Correspondent Lenders must provide Borrowers with MI disclosures that are comparable to those required for lender-paid MI under Section 6 of the Homeowners Protection Act ("HPA") (i.e., 12 U.S.C. Section 4905); such notices must be provided in accordance with the same timing requirements applicable to lender-paid MI notices under Section 6 of the HPA. Refer to product matrices for eligible terms and product codes.

## Part N – Property Insurance

### N-1 – Escrows for Taxes and Insurance

Escrows are generally required on all loans with LTVs > 80% with escrow waivers for taxes and property insurance permitted with the following criteria:

Table N-1-A: Escrow Waiver Criteria

Primary Residence	Second Home
All states excluding CA and NM: < = 80% LTV California: < 90% LTV New Mexico: < 80% LTV	All states excluding CA and NM: < = 80% LTV California: < 90% LTV

Note: escrows for mortgage insurance must be established regardless of LTV unless a single premium was paid in full at closing.

### N-2 – Hazard Insurance

CMG must ensure that adequate hazard insurance for the security property is in place.

#### Agent Rating Requirements

Unless CMG has approved alternative arrangements in advance, the hazard insurance policy for a property securing any first mortgage—including blanket policies for condos and PUDs—must be written by a carrier that meets Fannie Mae current rating requirements.

#### General Hazard Insurance Coverage – 1-4 Family Dwellings

Hazard insurance must protect against loss or damage from fire and other hazards covered by the standard extended coverage endorsement. The coverage must provide for claims to be settled on a replacement cost basis. Extended coverage must include, at a minimum, wind, civil commotion (including riots), smoke, hail, and damages caused by aircraft, vehicle, or explosion.

Exclusions or limitations (in whole or in part) for windstorm, hurricane, hail damages, or any other perils that normally are included under an extended coverage endorsement are not permitted.

#### Coverage Requirement

Required coverage must be equal to the lesser of the following:

- 100% of the insurable value of the improvements, as established by the property insurer; or
- the unpaid principal balance of the mortgage, as long as it equals the minimum amount—80% of the insurable value of the improvements—required to compensate for damage or loss on a replacement cost basis. If it does not, then coverage that does provide the minimum required amount must be obtained.

#### Deductible Amount

The maximum allowable deductible for insurance covering a property (including common elements in a PUD, condo, or co-op project) securing a first mortgage loan is 5% of the face amount of the policy. When a policy provides for a separate wind-loss deductible (either in the policy itself or in a separate endorsement), that deductible must be no greater than 5% of the face amount of the policy.

Note: Freddie Mac allows Condominium Projects to have a higher deductible if it exceeds 5% due to a per unit deductible for named perils specific to a geographic area provided that the unit owner's HO-6 policy meets certain requirements. Refer to the Freddie Mac selling guide for additional details.

## **Required Coverage for PUDs or Condos**

Note: For 2 – 4 unit projects refer to the Fannie Mae and Freddie Mac selling guides for deviations from standard requirements.

Most condominium projects have master or blanket policies that address the insurance requirements for each unit. Each loan file must contain a copy of the blanket policy as well as a copy of the Evidence of Insurance that specifies the individual unit. Blanket policies may not permit:

- A blanket policy covering multiple unaffiliated condo associations or projects OR
- Self insurance arrangements in which the HOA is self-insured or has banded together with unaffiliated associations to self-insure the general and limited common elements of various associations.

The term “walls-in” for insurance policies has been eliminated and revised requirements have been updated. The new requirements are described below. The HO-6 policy is still required if the master insurance policy does not provide coverage for fixtures, equipment, and replacement of improvements and betterments that have been made for the individual unit.

A statement is required from the insurance agent that states: “Based on our best knowledge and information, the HO-6 coverage amount is appropriate and adequate to return this property to its current condition in the event of a claim.”

A “single entity” policy -- the policy must cover all of the general and limited common elements that are normally included in coverage. These include fixtures, building service equipment, and common personal property and supplies belonging to the homeowners’ association. The policy also must cover fixtures, equipment, and replacement of improvements and betterment coverage to cover any improvements that have been made inside the individual unit. If the unit interior improvements are not included under the terms of this policy type, the borrower is required to have an HO-6 policy with coverage, as determined by the insurer, which is sufficient to repair the condo unit to its condition prior to a loss claim event.

An “all-in” (sometimes known as an “all inclusive”) policy -- the policy must cover all of the general and limited common elements that are normally included in coverage. These include fixtures, building service equipment, and common personal property and supplies belonging to the homeowners’ association. The policy also must provide coverage for fixtures, equipment, and replacement of improvements and betterments that have been made. As such, a borrower is not required to have an HO-6 policy. If the unit interior improvements are not included under the terms of this policy type, however, the borrower is required to have an HO-6 policy with coverage, as determined by the insurer, which is sufficient to repair the condo unit to its condition prior to a loss claim event.

A “bare walls” policy – the policy typically provides no coverage for the interior of the condominium unit which includes fixtures, equipment, and replacement of improvements and betterments. As a result, a borrower will also be required to obtain an HO-6 policy.

For policies covering the common elements in a PUD project and for policies covering condominium or co-op projects, the maximum deductible amount must be no greater than 5% of the face amount of the policy. For blanket insurance policies that cover both the individual units and the common elements, the maximum deductible amount related to the individual unit should be no greater than 5% of the replacement value of the unit.

Most units in PUD projects are insured as individual residences; therefore their insurance requirements are similar to those for single-family residences. However, if a project covers individual units with a master policy, the master policy is acceptable.

Table N-2-A: Attached Condo Requirements

Coverage	Criteria
Type of Policy	The master policy in the name of the condo association must cover all common elements, amenities, and the residential buildings.
Named Insured	Policy must be in the exact name of the association. Obtain the legal name from the purchase contract, title, or a recorded document. The appraisal is not a legal document and should not be used.
Liability Coverage  Fannie Mae: Liability Coverage is not required for projects reviewed under the Limited Review method. Refer to Fannie Selling guide for flexibility for two- to four-unit projects reviewed under the Full Review process that meet a specific set of criteria.	<p>All States Except CA:</p> <p>A liability policy of \$1,000,000 minimum per any single occurrence is required</p> <p>CA projects (100 or fewer units):</p> <p>A liability policy of \$2,000,000 minimum per any single occurrence is required</p> <p>CA Projects (&gt;100 units):</p> <p>A liability policy of \$3,000,000 minimum per any single occurrence is required (additional liability coverage may be in the form of 'umbrella' or 'additional liability')</p>
Hazard Coverage	Must cover 100% of the insured value and include a GRC Endorsement or a Replacement Cost Endorsement.
Hazard Deductible	May be up to 5% of the face amount of the insurance policy. If the policy has separate deductibles for named perils (fire, water not caused by flooding, or wind) then each deductible may not exceed 5% of the dwelling coverage.
Fidelity/Crime Insurance	<p>Fidelity/crime insurance is required for all projects with the following exceptions that do not require fidelity/crime insurance:</p> <ul style="list-style-type: none"> <li>• Condo projects reviewed under the Limited review method,</li> <li>• Condo or co-op projects consisting of 20 units or less, or</li> <li>• Condo or co-op projects that would need fidelity/crime insurance coverage of \$5,000 or less (bases on calculations described in the Fannie Mae Selling Guide)</li> </ul> <p>The insurance policy must name the HOA as the insured and the premiums must be paid as a common expense by the HOA. Coverage must:</p> <ul style="list-style-type: none"> <li>• Be in an amount equal to no less than the maximum amount of funds in the HOA's reserve account; or</li> <li>• If financial controls in place (separate account for reserves and operating budget, and two signers required) be in an amount no less than three (3) month's HOA assessments</li> </ul>
Expiration Date	The policies must not expire prior to funding.

Table N-2-B: PUD and Detached Condo Requirements

Coverage	Criteria
Type of Policy	PUD and detached condos usually carry master policies for common elements and amenities, but do not include the residences. Individual lots are usually covered by individual owner policies. Occasionally, however a PUD/detached condo association may carry a master policy that insures the residences. This type of master policy is an acceptable alternative to individual policies, but the policy must be reviewed to ensure proper coverage exists.
Named Insured	Policy must be in the exact name of the PUD/detached condo association. Obtain the legal name from the purchase contract, title, or a recorded document. The appraisal is not a legal document and should not be used.
Liability Coverage  Note: Fannie Mae does not require project-level liability coverage on PUD projects. Liability Coverage is not required for condo projects reviewed under the Limited Review method.  Freddie Mac does not require insurance on Common Elements of a PUD, when the insurable value of the PUD's Common Elements is minimal or does not exist. Freddie Mac no longer requires project liability insurance for Detached Condominium Project Reviews.	<p>All States Except CA: A liability policy of \$1,000,000 minimum per any single occurrence is required</p> <p>CA projects (100 or fewer units): A liability policy of \$2,000,000 minimum per any single occurrence is required</p> <p>CA Projects (&gt;100 units): A liability policy of \$3,000,000 minimum per any single occurrence is required (additional liability coverage may be in the form of 'umbrella' or 'additional liability')</p>
Hazard Coverage	The HOA must maintain a property insurance policy, with premiums being paid as a common expense. The policy must cover all of the common elements except for those that are normally excluded from coverage, such as land, foundation, and excavations. Fixtures and building service equipment that are considered part of the common elements, as well as common personal property and supplies, should be covered. Individual insurance policies are also required for each unit mortgage that Fannie Mae purchases in a PUD project. If the project's legal documents allow for blanket insurance policies to cover both the individual units and the common elements, Fannie Mae will accept the blanket policies in satisfaction of its insurance requirements for the units.
Hazard Deductible	May be up to 5% of the face amount of the insurance policy. If the policy has separate deductibles for named perils (fire, water not caused by flooding, or wind) then each deductible may not exceed 5% of the dwelling coverage.
Fidelity/Crime Insurance	Fidelity/crime insurance is required for all projects with the following exceptions that do not require fidelity/crime insurance: <ul style="list-style-type: none"> <li>• Condo projects reviewed under the Limited review method,</li> <li>• Condo or co-op projects consisting of 20 units or less, or</li> </ul>

	<ul style="list-style-type: none"> <li>Condo or co-op projects that would need fidelity/crime insurance coverage of \$5,000 or less (based on calculations described in the Fannie Mae Selling Guide)</li> </ul> <p>The insurance policy must name the HOA as the insured and the premiums must be paid as a common expense by the HOA. Coverage must:</p> <ul style="list-style-type: none"> <li>Be in an amount equal to no less than the maximum amount of funds in the HOA's reserve account; or</li> <li>If financial controls in place (separate account for reserves and operating budget, and two signers required) be in an amount no less than three (3) month's HOA assessments</li> </ul>
Expiration Date	The policies must not expire prior to funding.

**Special Endorsements**

The requirements for endorsements for PUD and condo projects are as follows:

- Inflation Guard Endorsement, when it can be obtained,
- Building Ordinance or Law Endorsement, if the enforcement of any building, zoning, or land- use law results in loss or damage, increased cost of repairs or reconstruction, or additional demolition and removal costs. (The endorsement must provide for contingent liability from the operation of building laws, demolition costs, and increased costs of reconstruction.), and
- Steam Boiler and Machinery Coverage Endorsement, if the project has central heating or cooling. (This endorsement should provide for the insurer's minimum liability per accident to at least equal the lesser of \$2 million or the insurable value of the building(s) housing the boiler or machinery.) In lieu of obtaining this as an endorsement to the commercial package policy, the project may purchase separate stand-alone boiler and machinery coverage.

**Special Endorsements for Condo Projects Only**

A Special Condo Endorsement is required if the policy doesn't provide that:

- Any Insurance Trust Agreement is recognized and the right of subrogation against unit owners is waived.
- The insurance is not prejudiced by any acts or omissions of individual unit owners that are not under the control of the homeowners' association.

The policy must be primary, even if a unit owner has other insurance that covers the same loss.

Table N-2-C: Requirements for Name Insured

COVERAGE TYPE	REQUIRED FOR NAME INSURED
Condo Projects	The policy must show the homeowners' association as the named insured. If the condo's legal documents permit it, the policy can specify an authorized representative of the homeowners' association, including its insurance trustee, as the named insured. The "loss payable" clause should show the homeowners' association or the insurance trustee as a trustee for each unit owner and the holder of each unit's mortgage loan.
PUD common areas	The policy must show the homeowners' association as the named insured.

**Loss Payee:** Refer to Selling Guide.



## N-3 – Flood Insurance

Flood insurance required for any property that has a building, dwelling, structure, or improvement situated in a Special Flood Hazard Area (SFHA) that has federally mandated flood insurance purchase. The determination of the flood zone is required by pulling a Standard Flood Hazard Determination. Flood insurance is required when the Flood Certification indicates one of the following symbols: A, AE, AH, AO, AR, A1-30, A-99, V, VE, VO, and V1-30.

If flood insurance is not available in certain flood hazard areas because the community does not participate in the National Flood Insurance Program (NFIP), the loan is not eligible.

### **Acceptable Flood Insurance Policies**

Flood insurance generally should be in the form of the standard policy issued under the NFIP. The Policy Declaration page of a policy is acceptable evidence of coverage. Policies that meet NFIP requirements—such as those issued by licensed property and casualty insurance companies that are authorized to participate in NFIP’s “Write Your Own” program—are acceptable.

### **Maximum Available through NFIP**

The maximum insurance available under the appropriate National Flood Insurance Program (NFIP) is \$250,000 per unit. This maximum also applies to condos and PUDs.

### **Required Coverage on a 1-4 Unit Dwelling**

The minimum amount of flood insurance required for most first mortgages secured by one- to four-unit properties, individual PUD units, and certain individual condo units (such as those in detached condos, townhouses, or row houses) is the lower of

- 100% of the replacement cost of the insurable value of the improvements,
- The maximum insurance available from the National Flood Insurance Program (NFIP), which is currently \$250,000 per dwelling, or
- The unpaid principal balance of the mortgage.

The amount of flood insurance coverage for a PUD project should be at least equal to the lesser of 100% of the insurable value of the facilities or the maximum coverage available under the appropriate National Flood Insurance Program.

### **Required Coverage on Attached Condos**

- Stand-alone flood insurance dwelling policies for an attached individual condo unit are not acceptable. A master condo flood insurance policy must be maintained by the HOA, subject to the coverage requirements below.
- The HOA must obtain a Residential Condominium Building Association Policy or equivalent private flood insurance coverage for each building that is located in an SFHA. The policy must cover all of the common elements and property (including machinery and equipment that are part of the building), as well as each of the individual units in the building.
- The master flood insurance policy must be at least equal to the lower of
- 80% of the replacement cost, or
- The maximum insurance available from NFIP per unit (which is currently \$250,000).
- If the condo project master policy meets the minimum coverage requirements above but does not meet the one- to four-unit coverage requirements (described in Coverage for First Mortgages), a supplemental policy may be maintained by the unit owner for the difference.
- The contents coverage should equal 100% of the insurable value of all contents (including machinery and equipment that are not part of the building), owned in common by association members.

If the condo project has no master flood insurance policy or if the master flood insurance policy does not meet the requirements, mortgages securing units in that project are not eligible.



**Note:**

- If the condominium owners associations' building coverage is not at least equal to the lower of 80% of the building's replacement cost or \$250,000 multiplied by the number of units in the building, the Mortgage is not eligible for sale to Freddie Mac, with the exception of Freddie Mac Relief Refinance Mortgages - Open Access, which remain eligible for sale to Freddie Mac with supplemental coverage if applicable.

**Deductibles**

The deductible for 1-4 units, condos and PUD may not exceed a maximum of \$10,000. Condo and PUD master policy deductibles cannot exceed a maximum of \$25,000.

## **Part O – Title Insurance**

### **O-1 – General Requirements**

All loans must close with an ALTA title insurance policy which will provide evidence of the borrower's lawful interest in the property to be mortgaged.

The title policy must be in the CMG/correspondent's name and /or its assigns. Title must be vested in the borrower's name, in the name of an eligible inter vivos trust (if permitted per program guides), or in the case of a purchase money must be currently vested in the seller's name with a requirement for a deed to be recorded transferring title to our borrower's name at closing.

The insured amount of the policy must be at least for the gross loan amount and the policy must be dated within 45 days of closing.

A survey will be required only if an exception appears on the title. ALTA 9 Endorsement, or its equivalent, may be substituted in the event a survey is not commonly required by the property area.

A minimum of a twelve month title chain must be provided on each policy. The chain of title will be reviewed for flips as part of the underwriting process.

### **O-2 – Title Company Requirements**

Title companies must meet minimum standards with regards to their overall financial condition and ability to meet its credit obligations. Title Insurance companies must maintain an acceptable financial rating as defined by Fannie Mae.

### **O-3 – Closing Agent Requirements**

All closing agents must be approved by CMG prior to performing any closing functions on a loan. In order to obtain approval, the following information must be submitted and reviewed:

- Errors and Omissions Insurance Policy. The minimum coverage limit is \$500,000 per claim and \$1,000,000 in aggregate with a deductible of no more than \$5,000 per million. The policy must have valid effective dates.
- A Closing Protection Letter (CPL) from the title underwriter identifying the closing agent by name and address. A transaction specific CPL will be required on each transaction.
- In the event the property is located in a state where closing protection letters are not issued by the insurer, a Fidelity Bond policy must be obtained. The bond must provide for a minimum of \$1,000,000 in coverage and CMG must be named as a certificate holder on the policy.
- Wiring Instructions must be provided with each closing transaction.

## O-4 – Closing Attorney Requirements

All closing attorneys must be approved by CMG prior to performing any closing functions on a loan. In order to obtain approval, the following information must be submitted and reviewed:

- Copy of Business License
- Closing Protection Letter, if available in subject property state
- Liability Insurance Policy. The minimum coverage is \$1,000,000 with a deductible of no more than \$5,000 per million. The declarations page must have valid effective dates and list the name of the attorney or firm name and address.

Part Z - Recent Updates / 90 Day Lookback

10/19/2020

- Updated monthly obligations with info from Freddie Bulletin 2020-38 in regards to payments on HELOCs. Freddie Mac (LPA) permits the use of 1.5% of the outstanding HELOC balance when the HELOC monthly payment amount is not captured in the Mortgage file documentation or on the credit report. However, documentation of the HELOC terms, including the payment amount, continues to be required for HELOC's originated concurrently with the First Lien Mortgage.
- Updated section G-5 non taxable income with Freddie Mac's example (LPA loans only): For Social Security income (i.e., retirement income, disability benefits, survivor benefits and Supplemental Security Income), the underwriter may gross up 15% of the income without obtaining additional documentation. For example, if the Borrower's Social Security income is \$1,000/month, the underwriter can gross up \$150 (i.e., 15% of \$1,000) without obtaining documentation that this portion of the income is tax exempt. Using 25% as the income adjustment factor, the income is calculated as follows:
  - $\$150 \times 25\% = \$37.50$
  - $\$1,000 + \$37.50 = \$1,037.50$
  - \$1,037.50 can be used for qualifying without obtaining tax returns or other documentation evidencing that the income is tax exempt.

The underwriter must obtain additional documentation in order to gross up the entire amount of income (i.e., \$1,000) for use in qualifying the Borrower. Refer to the Freddie Mac Selling Guide for additional details.

4/13/2020 Clarified Attached PUD insurance requirements to reflect current Fannie Mae & Freddie Mac requirements: The HOA must maintain a property insurance policy, with premiums being paid as a common expense. The policy must cover all of the common elements except for those that are normally excluded from coverage, such as land, foundation, and excavations. Fixtures and building service equipment that are considered part of the common elements, as well as common personal property and supplies, should be covered. Individual insurance policies are also required for each unit mortgage that Fannie Mae purchases in a PUD project. If the project's legal documents allow for blanket insurance policies to cover both the individual units and the common elements, Fannie Mae will accept the blanket policies in satisfaction of its insurance requirements for the units.

12/2/2019 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"> <li>• currently owns a principal residence (or has a current housing expense), and</li> <li>• has at least a one-year history of receiving rental income or documented property management experience</li> </ul> <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"> <li>• currently owns a principal residence (or has a current housing expense), and</li> <li>• has less than one-year history of receiving rental income or documented property management experience</li> </ul>	<ul style="list-style-type: none"> <li>• 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</li> <li>• for an investment property, rental income can only be used to offset the PITIA of the subject property.</li> </ul>

<ul style="list-style-type: none"><li>• does not own a principal residence, and</li><li>• does not have a current housing expense</li></ul>	rental income from the subject property cannot be used.
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Note: This policy does not apply to HomeReady loans with rental income from an accessory unit.

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

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

11/25/2019 Clarified non permanent resident alien eligibility to specifically state that C08 status is not eligible.

9/16/2019 Added references to MH Advantage eligibility as noted in the separate MH Advantage Guideline Addendum.