



CMG FINANCIAL

Experience Extraordinary

USDA Guidelines

All CMG Financial Guidelines will follow USDA/Ginnie Mae Guidelines in addition to CMG Financial overlays, when applicable.

USDA Handbook and Regulation 7CFR Part 3555 must be adhered to in addition to all applicable laws and agency requirements.

CMG Financial, a Division of CMG Mortgage Inc.

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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.

All Non- U.S. Citizen Borrowers

Lenders must secure proof of identity and evidence that non-citizens who apply for a guaranteed loan are qualified aliens. The evidence confirming qualified alien status may be obtained after the lender has received an application for credit from the potential borrower. The lender should obtain the non-citizen's alien identification number with copies of any supporting documents and communicate it to the Agency office servicing their area. Examples of supporting documents are provided in the screen print below. Agency staff will then submit the alien's information to SAVE and, in most cases, will be able to promptly inform the lender of the applicant's eligibility status based on the aliens Class of Admission (COA).

U.S. Citizenship and Immigration Services
WEB-3

Online

Enter Applicant Information:

What document(s) did the applicant present (select one):

- I-327 (Reentry Permit)
- I-551 (Permanent Resident Card)
- I-571 (Refugee Travel Document)
- I-766 (Employment Authorization Card)
- Certificate of Citizenship
- Naturalization Certificate
- Machine Readable Immigrant Visa (with Temporary I-551 Language)
- Temporary I-551 Stamp (on passport or I-94)
- I-94 (Arrival/Departure Record)
- I-94 (Arrival/Departure Record) in Unexpired Foreign Passport
- Unexpired Foreign Passport
- I-20 (Certificate of Eligibility for Nonimmigrant (F-1) Student Status)
- DS2019 (Certificate of Eligibility for Exchange Visitor (J-1) Status)
- Other (Select If Document Not Listed)

A-2 – Eligible Borrowers

Form RD 3555-21, “Request for Single Family Housing Loan Guarantee” requires both the lender and the applicant to certify that the applicant is unable to secure credit from other sources upon terms and conditions which the applicant can reasonably fulfill. The certification can be made if the applicant does not meet the requirements to obtain a traditional conventional credit loan. Traditional conventional credit is defined for Agency purposes as:

- The applicant has available personal non-retirement liquid verifiable asset funds of at least 20% of the purchase price that can be used as a down payment;
- The applicant can, in addition to the 20% down payment, pay all closing costs associated with the loan;
- The applicant can meet qualifying ratios of no more than 28% PITI and 36% TD when applying the 20% down payment;
- The applicant demonstrates qualifying credit for such a loan.
- The conventional mortgage loan term is for a 30- year fixed rate loan term without a condition to obtain private mortgage insurance (PMI).

If the applicant meets the cumulative criteria of traditional conventional credit, as defined by the Agency above; the applicant is ineligible for the SFHGLP.

Liquid assets for conventional credit down payment purposes typically consist of cash or cash equivalents. Cash or cash equivalents include funds in the applicant’s checking or savings accounts, or investments in stocks, bonds, mutual funds, certificates of deposit, and money market funds, unless they were encumbered (pledges as collateral) or otherwise inaccessible without substantial penalty. Cash equivalents do not include funds in Individual Retirement Accounts, 401(k) accounts, Keogh accounts, or other retirement accounts that are restricted and may not be accessed without incurring substantial monetary penalties. Educational college savings plans, such as a 529 plan, which incur a penalty to withdraw, is not considered a cash equivalent. Owning land is not considered a liquid asset. Land cannot typically be converted to cash quickly without minimal impact to the price received and ease in transfer of ownership.

Note: Documentation to support ineligibility for conventional credit must be retained in the lender’s permanent case file.

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/CAIVRS)

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 Policy: [Exclusionary Lists CPS-1019-ALL](#)

A-3 – Ineligible Borrowers

- Any applicant that is able to secure credit from other sources upon terms and conditions which the applicant can reasonably fulfill. Refer to “Eligible Borrowers” for additional details.
- Non occupant co-borrowers / cosigner / guarantor
- Loans with title or interest held in various forms/legal entities such as Life Estates, 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. All borrowers must be in title.
- 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
- Revocable/Non-Revocable *Inter vivos* Trust
- Partnerships
- Any Non US Citizen not determined as eligible by USDA

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.

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:

- USDA eligibility requirements must be met (see below)
- 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

USDA Handbook POA Requirements:

A Power of Attorney (POA) may be used when the Mortgagee verifies and documents that all of the following requirements have been satisfied:

- Any specific or general power of attorney must comply with state law, and allow for legal enforcement of the mortgage note in jurisdiction.
- For military personnel, a POA may only be used for one of the applications (initial or final), but not both:
 - when the service member is on overseas duty or on an unaccompanied tour;
 - when the Mortgagee is unable to obtain the absent Borrower's signature on the application by mail or via fax; and
 - where the attorney-in-fact has specific authority to encumber the Property and to obligate the Borrower. Acceptable evidence includes a durable POA specifically designed to survive incapacity and avoid the need for court proceedings.
- For incapacitated Borrowers, a POA may only be used where:
 - a Borrower is incapacitated and unable to sign the mortgage application;
 - the incapacitated individual will occupy the Property to be insured; and
 - the attorney-in-fact has specific authority to encumber the Property and to obligate the Borrower. Acceptable evidence includes a durable POA specifically designed to survive incapacity and avoid the need for court proceedings.

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

Not permitted.

Part B – Property Ownership Restrictions

B-1 – Multiple Loans to One Borrower

Refer to section B-1 - Multiple Financed Properties

B-2 – Multiple Financed Properties

An applicant who owns a dwelling to which they will retain ownership is eligible for a guaranteed loan to purchase another home if all of the criteria below are met:

- The homeowner's current dwelling is not financed by a Rural Development guaranteed or direct Section 502 or 504 loan or active grant (the grant agreement has not expired);
- The homeowner is financially qualified to own more than one house (the loan applicant is limited to owning one single family housing unit other than the one associated with the loan request);
- The homeowner will occupy the home financed with the guaranteed loan as their primary residence throughout the term of the loan.
- The current home owned no longer adequately meets the applicants' need. Manufactured housing units that are not fixed on a permanent foundation are considered functionally inadequate (all costs associated with this unit must be included in the total debt ratio). The determination that the current home no longer adequately meets the applicant's needs must include documentation of a significant status change in the circumstances of the borrower that require immediate remedy. Examples of changes in status could include, but are not limited to:
 - Severe overcrowding which is defined as more than 1.5 household residents per room. The room count generally includes a living room, dining room, kitchen, den, recreation room, and bedroom(s). Room counts do not include the bathroom or an entry hall/foyer. The lender must obtain verification that overcrowding has existed for more than 90 days and will persist for at least nine (9) months into the future.
 - The disability or limited mobility of a permanent household resident that cannot be accommodated without substantial retrofitting of the current property, e.g., the installation of a ramp, an elevator or stair-lift, or extra-wide doors and hallways. Lender must obtain verification of the change in status, the existing property deficiencies, and the suitability of the new property.
 - The applicant is/has relocated with a new employer, or being transferred by the current employer to an area not within reasonable and locally recognized commuting distance.

In all cases, the lender must provide an additional explanation of the burden upon the applicant imposed by the status change both in the near the near and longer term, and also the reasons beyond homeowner convenience why the purchase of the property must be completed prior to the sale of the existing property. All documentation will be retained in the lender's permanent loan file and may be requested by the Agency upon review.

Part C – Occupancy

Only Owner Occupied/Primary Residences only.

C-1 – Primary Residence

Applicants must agree to personally occupy the dwelling as a principal residence throughout the term of the loan. Bona fide occupancy in the home as the applicant's principal residence within 60 days after signing the security instruments is required.

Active duty military applicants. Active duty military applicants may be eligible for the SFHGLP. They must occupy the property as their principal residence. The military applicant must express intent to meet occupancy requirements upon his/her discharge from the service. A military serviceperson who cannot physically reside in a property because they are on active duty will be considered to meet occupancy requirements defined in § 3555.10 of 7 CFR 3555 if:

- The serviceperson's family will continue to occupy the property as their principal residence. See section G-9: Military Income for additional information on calculating military income for repayment of the loan request.

Student applicants. Due to the probability of relocation after graduation, full-time students cannot obtain loans unless they intend to make the home a permanent residence and there are reasonable prospects of securing employment in the area after graduation.

Part D – Underwriting Documentation

D-1 – Age of Documents

Information used to make the credit decision must be current. The maximum age of documents at closing is:

Table D-1-A: Document Age Requirements

Item:	Maximum Age at Closing:
Credit Report	120 Days**
Income/Asset Documents	120 Days
Appraisal	150 Days*

*Except as noted below, the appraisal report must be no older than 150 days at loan closing to be valid.

** When the conditional commitment has been issued by USDA and the credit report in GUS is expired: Lenders may pull a new credit report outside of GUS to ensure there are no new debts, new credit, increases in liability payments, etc. If there are no changes, the issued conditional commitment will remain valid. No release, correction, or resubmission will be required.

Appraisal update. Lenders may extend the validity period of an appraisal with an appraisal update report that will be no greater than 240 days from the effective date of the initial appraisal report at loan closing (150 days for the original appraisal plus 90 days for the Appraisal Update Report). Appraisals with no update will be no greater than 150 days from the effective date of the appraisal report at loan closing. An original appraisal report can be updated one time with an Appraisal Update Report.

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 GUS findings for required documentation.

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.

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

Electronic Signatures are permitted on Real Estate Sales Contracts. CMG must ensure the Sales Contract is signed by the correct parties in all required places.

Note: The Amendatory Clause and Real Estate Certification are attachments to the Sales Contract so these documents may be electronically signed.

Retail and Wholesale CMG Disclosures: The initial disclosures must be electronically signed via the IDS system. CMG contracts with IDS 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

Correspondent and Wholesale Brokers: The Correspondent Selling Company and the Wholesale Broker 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

The tools must be performed on each loan file by the underwriter prior to issuing for QC review, providing an instant risk score and includes information detailing the risk scoring, reasoning and top fraud indicators associated with the characteristics of the loan. CMG will generate a report on all loan transactions.

Consumer Services/Wholesale: The underwriter is required to respond to all high risk messages.

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 (NLMS) IDs provided on all loans submitted against the NLMS 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 MLS 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. 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)

Part F – Credit Analysis

It is the Agency's expectation that lenders will act responsibly when originating and underwriting SFHGLP loans. Rural Development does not re-underwrite the mortgage loan application request. This remains the approved lender's responsibility. When lending to low- and moderate-income applicants, lenders are expected to use professional judgment and rely upon prudent underwriting practices to determine the likelihood of successful homeownership. The use of the Agency's automated underwriting system does not replace the judgment of experienced underwriters. The automated underwriting system is a tool that helps evaluate the credit risk of the loan request. The lender must evaluate and confirm the representation of accurate data. The Agency expects lenders to employ prudent underwriting judgment in assessing whether a loan should be approved and submitted to the Agency.

F-1 – Credit Report

An automated merged credit report – also known as a multi-merged credit report (MMCR) or Three-Repository Merged Credit Report (TRMCR) - combines in-file credit reports from multiple repositories into a single report. A joint merged credit report includes all credit repository credit data on two individual applicants who are married to each other. The report must meet the requirements of Fannie Mae, Freddie Mac, FHA or VA, which include, but are not limited to the following requirements:

- The report should include all information from three different credit repositories, or two repositories, if that is the extent of the data available for the applicant.
- The report must include all credit and legal information reported for the applicant from the three (or two, if applicable) in-file credit reports not considered obsolete under the Fair Credit Reporting Act (FCRA), including information for the last seven years regarding bankruptcies, judgments, law suits, foreclosures, and tax liens.

F-2 – Credit Score

All borrowers must meet minimum credit score requirement. 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".

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, the loan is not eligible.

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.

Adverse Credit

- Refer to USDA Handbook paragraphs 10.9 (Collections), 10.10 (Non-Federal Judgments, and Attachment 10-B, as applicable, for full requirements.
 - GUS Accept loans must ensure the lender has considered the adverse credit as part of their loan approval. A GUS Accept is not a substitute for prudent underwriting.
 - Collections reported for GUS "Accept". For loans underwritten with the assistance of GUS when an "Accept" recommendation is received, lenders remain responsible for considering the existence of unpaid collections and the history of the collection accounts in the final credit analysis and loan making decision, subject to the capacity analysis describe below. A letter of explanation or documentation supporting the presence of unpaid collections is not required when the underwriting recommendation is an "Accept." The lender will document reasons for approving a loan request when collection accounts remain unpaid. The preferred method to record the lenders analysis/reasons for approving the loan is to document their justification on the credit liability line under "notes" on the "Assets and Liabilities" page beside each individual collection.
 - Capacity Analysis when collections are reported – all underwriting types. Unpaid open collections could affect the future ability of an applicant to repay a mortgage when creditors pursue collection. Ensure all collections and charge-offs are listed on the loan application as a liability. Collections meeting the omission policy noted in the handbook can be omitted form the total debt to income ratio. Additional documentation is not required to omit those collections meeting criteria as noted in the handbook.
 - All charge off accounts are eligible to be deducted from the total adverse credit balance for the capacity a nalysis.
 - Remove all medical collections and all types of charge off accounts from the total balance. Medical collections and charge off accounts must be clearly identifiable on the credit report.
 - **Non-Federal judgments:** For all underwriting types, open and unpaid non-Federal judgments render the loan ineligible. Exception: Judgments with repayment plans underway.
 - **Federal Judgments:** Outstanding Federal judgments (excluding IRS tax debts with repayment plans underway) r ender the loan ineligible.

Authorized User Accounts

- Closed authorized trade lines require no consideration. An authorized user account that is classified as "terminated" on the credit report is equal to a closed trade line. For loans underwritten with the assistance of GUS

that receive an underwriting recommendation of “Accept” and are supported by credit reports that designate the applicant on an open authorized user of trade lines, the lender will obtain evidence of one the following:

- The trade line(s) in question is owned by another applicant on the mortgage loan application.
- The owner of the trade line is the spouse of an applicant.
- The applicant has made payments on the account for the previous 12 months prior to application.
- There are two or more other tradelines listed on the credit report, which are not authorized user accounts, with at least 12 months of payment history listed to validate the credit score.

Bankruptcy or Foreclosure or Short Sale

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

GUS waiting periods for bankruptcy/foreclosure apply as CMG requires GUS approval (manual underwriting not permitted).

- **Bankruptcy.** CMG does not permit manual underwriting but will accept bankruptcies with revised waiting periods meeting USDA requirements with a valid GUS “Accept”. USDA has removed the requirement for a credit waiver if GUS approved; therefore, less than three years may now be eligible if the file receives a GUS “Accept”.
 - Chapter 13 bankruptcy in progress. A Chapter 13 bankruptcy plan in progress does not disqualify an applicant from obtaining a mortgage loan provided
 - The lender documents 12 months of the debt restructuring plan has elapsed, and
 - The applicant’s payment performance has been satisfactory; and
 - All required payments were made on time, and
 - The applicant must receive written permission from the bankruptcy court/trustee to enter into a mortgage transaction.
 - Automated Underwriting System – GUS “Accept”. When a plan is in progress, and GUS has rendered an “Accept” underwriting recommendation, a credit exception in accordance with Section 10.8 of the USDA handbook is not required.
 - Chapter 13 bankruptcy plan completed. Automated Underwriting System - GUS “Accept”. The discharge date of the completed plan has been considered by the scorecard and is reflected in the overall credit score. No additional documentation is required.
- **Short sales** may now be eligible if < 3 years if new guidance is met, including that the loan was not in default at time of the short sale, and loan receives a GUS “Accept”. Refer to revision document for full USDA guidance. CMG aligns with USDA waiting period eligibility with a valid GUS “Accept”. Refer to Attachment 10-B: Evaluating Credit Involving Short Sales
 - The following criteria are applicable to evaluating credit involving short sales:
 - A short sale is considered a pre-foreclosure activity or event.
 - An applicant is ineligible for a mortgage loan if they pursued a short sale agreement on their principal residence to take advantage of declining market conditions and purchases at a reduce price a similar or superior property within a reasonable commuting distance.
 - If an applicant was current at the time of short sale, or in the case of a divorce at time of divorce, they may be eligible for a new mortgage loan. The prior mortgage payment history must reflect all mortgage payments due were made on time for the 12 month period preceding the short sale, or time of divorce, and all installment debt payments for the same period were also made within the month due.
 - An applicant in default on their mortgage at the time of the short sale (or preforeclosure sale) is generally not eligible for a new mortgage loan for three years from the date of pre-foreclosure sale.
- **Foreclosure / Deed-in-Lieu:** An applicant is generally not eligible for a new guarantee, if during the prior three years the applicant’s previous real property was foreclosed on or they have given a deed-in-lieu of foreclosure.

Credit Risk Score / Credit Score Validation

CMG requires all borrowers must meet minimum credit score requirement.

All files must be GUS approved in addition to meeting USDA's requirement for Credit Score Validation. Credit scores are an integral part of the risk assessment. Underwriting must validate the credit score and confirm the applicants have usable credit scores. The AUS does not dynamically validate the credit score used for the underwriting recommendation. A validated score does not wholly indicate that the applicant's credit reputation is acceptable. Even if the score exceeds the minimum required, underwriting must determine that the applicants have satisfactorily established the willingness and ability to manage and repay obligations as agreed. Once the credit reputation is established, the lender will evaluate the overall layering of risk in credit, capacity and collateral.

- At least one applicant whose income or assets are used for qualification must have a valid credit report score or have at least two historical trade line references that have existed for at least 12 months to establish a credit reputation. Non-traditional credit is not permitted and may not be used to enhance poor payment records or low credit scores.
- Loans underwritten with the assistance of the Agency's automated underwriting system that receive an "Accept" recommendation are **not** subject to credit score validation of this section.

Credit Supplements

Credit supplements obtained outside of GUS to support new debts or corrections to current debts are not eligible to retain an Accept recommendation.

Disputed Credit

Loans underwritten with the assistance of GUS that receive an underwriting recommendation of "Accept" are not eligible when they must be downgraded to a "Refer". Disputed credit accounts are not eligible unless the following conditions are met on the credit report:

- The disputed trade line has a zero dollar balance.
- The disputed trade line is marked "paid in full" or resolved."
- The disputed trade line has a balance owed of less than \$500 and is more than 24 months old.

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 90 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 the amount of credit necessary to produce a credit score and AUS approval. Traditional credit and GUS approval are required.

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

F-7 – Manual Downgrades/Manual Underwriting

Not Permitted. GUS approval required.

- The following represent examples when a lender will downgrade an “Accept” underwriting recommendation to a Refer and the loan will be ineligible as CMG does not permit manual underwrites.
 - Unable to validate the credit score. The underwriting score located in the Credit Report section of the GUS Underwriting Findings Report cannot be validated. CMG does not permit a manual downgrade and use of Non-traditional credit.
 - Disputed accounts. Loans with disputed accounts may be ineligible as they may require a manual downgrade of an “Accept” underwriting recommendation.
 - Authorized user accounts. Tradelines that are authorized user accounts that do not meet the criteria as outlined in the Credit section may require a manual downgrade.
 - Potential derogatory or contradictory information. If the lender is aware of any potential derogatory or contradictory information that is not any part of the data submitted to GUS or if there is any erroneous information in the data submitted to GUS. GUS will evaluate credit for significant credit indicators such as bankruptcy discharges, foreclosure sales, Deed-in-Lieu of foreclosure and late mortgage payments. A lender must independently review information regarding the following:
 - Pre-foreclosure sale. A pre-foreclosure sale (short sale) transfer occurred within three years of the request for conditional commitment, Refer to USDA Handbook Attachment 10-B for further guidance.

Part G – Evaluating Income

G-1 – Evaluating Income & Income Limits

The lender is responsible for ensuring that applicants meet eligibility criteria for the SFHGLP. One very important criterion is income eligibility. Income information is used to determine eligibility, to calculate the applicant’s ability to repay a loan, and to determine the amount of the loan. USDA has varying requirements for verifying and calculating income for these purposes. For additional details on qualifying income refer to USDA Handbook Chapter 9, Section 1. Qualifying income is the income that determines eligibility for participants in the program. This section primarily covers repayment income, which represents the stable and dependable income available to repay the mortgage and other debts.

Four income definitions are used:

- **Annual Income.** The income of all adult household members;
- **Adjusted Annual Income.** The household’s annual income minus certain qualified household deductions;
- **Qualifying Income.** Adjusted annual income compared to established income limits to determine eligibility of the household for the SFHGLP: and
- **Repayment Income.** The stable and dependable income used to calculate debt ratios and determine whether the applicant(s) can afford the home.

All loans must include an Income Worksheet (pages 5-7 of Form RD 3555-21), demonstrating the rationale behind the calculations used to determine the borrower’s repayment income. It must be determined that the borrower’s income level can be reasonably expected to continue through at least the first three (3) years of the mortgage loan. In addition to repayment income, USDA also has annual/adjusted income limits that are calculated separately.

Refer to Attachment 9-G of Chapter 9 of HB-1-3555. This attachment provides verification forms for use in verifying non-employed income or adjusted annual income deductions.

Income Limits (Annual Income/Adjusted Income):

- To determine eligibility for the program, family income must be within the area limits, determined using <http://eligibility.sc.egov.usda.gov/eligibility/welcomeAction.do>
 - As a reminder when using this online calculator:
 - Household members include full time college students
 - Where the household has net family assets, in excess of \$50,000, the greater of the actual income derived from all net family assets or a percentage of the value of such assets based on the current passbook savings rate must be considered when calculating annual income. Verification documentation must coincide with the type of asset identified for income purposes. Examples of assets can include (but is not limited to) cash, savings, stocks, bonds, investments, and real estate.

Repayment Income Reminder. To qualify income for the program (debt ratio maximum), incomes of ONLY household members who are party to the note are counted for determining repayment income. This is a separate determination from determining program eligibility as discussed in the above eligibility step. Other household income and eligibility deductions are ignored.

Worksheet for Documenting Eligible Household and Repayment Income: The Worksheet for Documenting Eligible Household and Repayment Income is now incorporated into Form 3555-21.

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.

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 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

- **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 (see below for USDA requirements for validating all household income). 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.

Additional USDA Requirements Regarding Validation of Household Income

Lenders must require each adult member of the household (regardless of income source) to complete and sign IRS Form 4506-T (or comparable IRS form) for the previous two tax years at the time of loan application. IRS Form 4506-T is an efficient method for lenders to receive and validate a household member's income tax information electronically.

Transcripts available through submission of IRS Form 4506-T include the 1040 U.S. Individual Income Tax Return, W-2 Wage & Tax Statement, 1099 Dividends/Interest, Miscellaneous Income, Government Payments, Cancellation of Debt, etc. along with other tax series forms. Lenders must determine what transcripts are necessary to validate the household income of applicants.

Guaranteed loans cannot be made to household's that exceed the applicable adjusted annual income limits. The transcripts provide an excellent quality control check for lender's to ensure all income and asset earnings reported to the IRS from all adult household members has been disclosed.

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
- Un-reimbursed employee expenses / 2106
- 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.

Household Income - Unable to Obtain Transcripts: When the lender is unable to obtain transcripts from the IRS for required household member, they may document their correspondence to and from the IRS in the permanent loan file to support the omission. The asset statements must be reviewed to ensure no errant deposits are identified that may be attributed to additional income sources. The loan file will be considered complete when the explanation is documented. Loan closings will not be delayed due to obstacles in obtaining the tax transcripts.

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 (Repayment)

3555.152(a) and Attachment 9-A assist lenders to review income types. The following guidance also assists lenders to consider repayment income sources:

- The income source must be documented.
- There must be evidence to support the historical receipt of earnings.
- Lenders are responsible to analyze any gaps in employment to make a final determination of stable and dependable income.
- Caution should be utilized for any applicant that has documented declining wages or earnings. Lenders must ensure repayment income is not inflated/overstated.
- Caution should be utilized for any applicant that has a documented sharp increase in earnings. A sharp increase in earnings is defined as a 20 percent or greater variance in income from the previous 12 months. Lenders must determine if an increase is supported and logical. Examples include but are not limited to: promotion with the current employer, documented pay raise with current employer, income trend analysis for overtime, bonus, commission, seasonal employees, etc.
- Caution should be utilized for any applicant that has a documented decrease in earnings. A documented decrease in earnings is defined as a 20 percent or greater variance in income from the previous 12 months. Lenders must determine if the decrease has/will continue or if there is evidence to support the earnings have stabilized. Examples include but are not limited to: loss of job but new employment secured with lower wages, new profession/line of work, loss of contract/clients, economic cycle impact such as real estate, finance/lending, manufacturing, construction, etc.

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.

Paystubs/earning statements must include adequate information to calculate income and include year-to-date earnings. The lender must utilize paystub(s)/earning statement(s) that are dated no earlier than 30 days prior to their initial loan application date.

W-2 forms must include the most recent one-or-two years as applicable. W-2's must clearly identify the applicant and employer.

G-5 – Sources of Income & Minimum Documentation

Income from other sources can be considered as effective if properly verified and documented. Refer to Handbook 3555.152(a) and (b) and Attachment 9-A. This matrix cannot cover every income/asset type, employment scenario, etc. USDA requires approved lenders to use sound judgment to make accurate and dependable analysis of income per 3555.152(a). "Documentation Source Options" lists eligible documentation. Every item listed is not required. Lenders must meet the minimum documentation requirements for streamlined, non-streamlined, etc. options of this Chapter.

Sources of income addressed in Attachment 9-A include, but may not be limited to:

- Adoption Assistance or Subsidy
- Automobile Allowances
- Base Wages (Hourly or Salary)
- Bonus
- Business Loss
- Capital Gains

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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 GUS. In addition to applying these CMG-specific overlays, all loans submitted to GUS must comply with the AUS Findings and USDA/Ginnie Mae requirements. To verify our state licenses, please log onto the following website: <http://www.cmgfi.com/licensing.php> and www.nmlsconsumeraccess.org

- Child Support
- Commission
- Contract/Employment Offer
- Depreciation & Depletion
- Disability Income – Long Term
- Dividends
- Earned Income Tax Credit
- Employee Fringe Benefits
- Employment Related Account
- Expense Allowance
- Foreign Income
- Foster child or adult income
- Government Benefits
- Housing Allowance
- Interest
- Live in Aides
- Medical Reimbursement
- Mileage
- Military
- Mortgage Credit Certificate
- Mortgage Differential Payment
- Non-Occupant Borrower
- Notes receivable
- Overtime
- Part-time Employment
- Pensions
- Per Diem
- Rental Income
- Restricted Stock Units (RSU)
- Retirement
- Royalty Payments
- Schedule K-1
- Seasonal Employment
- Secondary Employment
- Separate Maintenance / Alimony
- Social Security Income
- Student Loans
- Temporary Leave Income / Temporary Reduction to Income with current employer
- Tips
- Trust Income
- Unemployment
- VA Benefits

G-6 – Self-Employment Income

An applicant with a 25 percent or greater ownership interest in a business is considered self-employed for the purpose of calculating repayment income. The business may be a sole proprietorship, a partnership (limited or general) or a corporation.

A self-employed applicant introduces an additional layer of risk to a mortgage loan request due to the uncertain nature of future income. GUS will not take this additional risk into consideration in the overall risk evaluation. The lender remains responsible to determine the income source utilized in qualifying is a stable, consistent source that will continue to be received at the level utilized for repayment income purposes.

Minimum Length of Self-Employment

Income from self-employment is considered stable and dependable if the applicant has been self-employed for two or more years. Because of the high incidence of failure during the first few years of a new business, income from individuals self-employed for between one and two years can only be counted if the individual has at least two years previous successful employment (or a combination of one year of employment and formal education or training) in a related occupation or profession at the same or greater level in the same or similar occupation. If the applicant cannot demonstrate self-employment earnings for the previous two years, the lender's underwriter must review the applicant's reasonable probability of earnings based on a market feasibility study or business plan and pro forma financial statements for the business. The lender must also consider the applicant's experience in the business prior to considering the income for qualifying purposes. If the underwriter is unable to support the income with the documentation required, the income should not be utilized for repayment income purposes. The income from applicants self-employed for less than one year cannot be counted as repayment income.

When additional income the applicant draws from the applicant's corporation, partnership or S-corporation is utilized for repayment income, additional documentation is required to verify the applicant has a legal right to the additional income. Lenders can obtain a corporate resolution or other comparable document that establishes that right. Also confirm the applicant's percentage of ownership of the business entity from a review of business tax returns, letter from the accountant for the business or similar documents. The analysis must support that the business is clearly capable of providing the applicant with the additional income used to qualify.

A written analysis of income utilized to qualify the applicant must be retained in the lender's mortgage file. As part of the analysis, any increase or decrease in business income must be documented and justified to support a determination that the income used to qualify the applicant is stable and likely to continue for the next three years. It may be necessary to obtain additional years' tax returns when the applicant's self-employment income fluctuates to determine the stability of income. If the applicant's income is not utilized to qualify the applicant for repayment, the individual federal tax return is required to determine if there is a business loss that may have an impact on the stable monthly income utilized for qualifying. If a business loss is reported, additional documentation may be necessary to evaluate the impact of a business loss on the income used for qualifying the applicant for repayment. For the purposes of computing annual income to qualify the household, business losses will be treated as zero in the calculation. Business losses when calculating repayment income will be deducted from repayment income prior to calculating debt ratios.

Documentation

An applicant or household member is considered self-employed when they have a 25 percent or greater ownership interest in a business. The lender's permanent file must contain the following as applicable:

- Two consecutive years of signed Federal Income Tax Returns with all schedules filed with the IRS, or IRS transcripts that include all applicable schedules, along with a recent profit and loss statement (not required to be audited), and
- Two consecutive years of signed business Federal Income Tax returns with all schedules filed with the IRS, or IRS transcripts that include all applicable schedules, if required for the business type, and

- Confirmation the business is operational must be obtained within 30 days of the note date/loan closing. Documentation may include evidence of a website, additional internet documentation, licensing bureau certification, etc. Adverse changes to the business may render the applicant ineligible.

Lenders are encouraged to utilize Fannie Mae Form 1084 "Cash Flow Analysis," Fannie Mae 1088 "Comparative Income Analysis," or comparable self-employment evaluation form, and Attachment 9-E to assist in the calculation of self-employment income.

Negative business income is considered "zero" for annual income calculations.

REMINDER: Refer to Attachment 9-A in the USDA Handbook HB-1-3555 for documentation options and verification requirements of additional income and asset types that may apply to the household.

Tax returns for self-employed borrowers must be copies of the original returns filed with the IRS and include all supporting schedules. The most recent tax return refers to the last return filed as determined by IRS schedule/deadlines. Lenders must continue to obtain the most recent two years of returns as applicable. USDA requires all applicants to be current on their income tax filings.

Analyzing Self-Employment Income

The lender must establish the applicant's earnings trend over the previous two years, but may average the income for repayment purposes over three years if all three years' tax returns are provided. If the applicant provides quarterly tax returns, the analysis can include income through the period covered by the tax filings. If the applicant is not subject to quarterly tax filings or does not file quarterly returns Form IRS 1040 ES, "Estimated Tax Payment Voucher," the income shown on the P&L may be included in the analysis provided the income stream based on the P&L is consistent with the previous years' earnings. If the P&L statements submitted for the current year show an income stream considerably greater than what is supported by the previous years' tax returns, the analysis of income must be predicated solely on the income verified through the tax returns.

Lenders must carefully analyze the individual business's financial strength, the source of its income, and the general economic outlook for similar businesses in that area to determine if the business can be expected to continue to generate sufficient income for the applicant's needs. Annual earnings that are stable or increasing are acceptable. Conversely, income for an applicant whose business shows a significant decline in income over the period analyzed may not be considered adequate, dependable, and stable.

There are five basic types of business structures (sole proprietorship, corporations, "S" corporations, partnerships, and limited liability corporations), each of which will require slightly different forms of analysis. See below section "Analyzing Tax Returns for Self-Employed Applicants" for additional details.

Calculation of Self-Employed Income

Lenders are encouraged to utilize Fannie Mae Form 1084 "Cash Flow Analysis," Fannie Mae 1088 "Comparative Income Analysis," or comparable self-employment evaluation form, and Attachment 9-E to assist in the calculation of self-employment income.

Analyzing Tax Returns for Self-Employed Applicants

The self-employed applicant must submit current documentation of the business's income and expenses, including any applicable Federal tax returns that were filed with the IRS for the most recent two years in addition to year-to-date profit and loss and balance statements. Lenders are encouraged to use Fannie Mae Form 1084, "Cash Flow Analysis," and Fannie Mae Form 1088 "Comparative Income Analysis" to document a trend analysis for the applicant's business. Lenders may use the Fannie Mae forms or any documentation that provides the same information. Regardless of the analysis method used, and the documentation prepared by the lender, the loan file must contain clear and sufficient support for the lender's decision regarding the viability of the business and loan approval.

Individual Tax Returns (IRS Form 1040)

The amount shown on the IRS Form 1040 as "adjusted gross income" must be either increased or decreased based on the lender's analysis of the individual tax returns and any related tax schedules. Particular attention must be paid to:

- **Wages, salaries, tips.** If an amount is shown here, this may indicate the individual is a salaried employee of a corporation or has other sources of income. It may also indicate the spouse is employed, in which case the income must be subtracted from the adjusted gross income in the analysis.
- **Business income or loss (from Schedule C).** The sole proprietorship income calculated on Schedule C is business income. Depreciation or depletion may be added back to adjusted gross income.
- **Rents, royalties, partnerships, etc. (from Schedule E).** Any income received from rental properties or royalties may be used as income after adding back any depreciation shown on Schedule E.
- **Capital gain or loss (from Schedule D).** This is generally a one-time transaction and should not be considered in determining repayment income. However, if the business has a constant turnover of assets resulting in gains or losses, the capital gain or loss may be considered in determining the income provided the applicant has at least three years' tax returns evidencing capital gains. An example would include an individual who purchases old houses, remodels them, and sells them for a profit.
- **Interest and dividend income (from Schedule B).** This income, both taxable and tax-exempt, may be added back to the adjusted gross income only if it has been received for the past two years and is expected to continue. (If the interest-bearing asset will be liquidated as a source of the cash investment, the lender must adjust accordingly).

- **IRA distributions, pensions and annuities, and social security benefits.** The non-taxable portion of these items may be added back to the adjusted gross income if the income is expected to continue for the first three years of the mortgage.
- **Adjustments to income.** Certain adjustments to income shown on the IRS Form 1040 may be added back to the adjusted gross income. Among these are IRA and Keogh retirement deductions, penalties on early withdrawal of savings, health insurance deductions, and alimony payments.
- **Employee business expenses.** These are actual cash expenses that must be deducted from the applicant's adjusted gross income.

U.S. Corporate Income Tax Returns (IRS Form 1120)

- Corporations are state chartered businesses owned by their stockholders. Compensation to its officers, generally in proportion to the percentage of ownership, is shown on the corporate tax returns and will appear on individual tax returns. If the applicant's percentage of ownership is not shown, it must be separately obtained from the corporation's accountant with evidence the applicant has the right to those funds. Once the adjusted business income is determined, it is to be multiplied by the applicant's percentage of ownership in the business.
- In analyzing the corporate tax returns, lenders must adjust for the following:
 - **Depreciation and depletion.** The corporation's depreciation and depletion must be added back to after-tax income.
 - **Taxable income.** This is the corporation's net income before federal taxes. It must be reduced by the tax liability.
 - **Fiscal year versus calendar year.** If the corporation operates on a fiscal year that is different from the calendar year, an adjustment must be made by the lender to relate corporate income to the individual tax return.
 - **Cash withdrawals.** The applicant's withdrawal of cash from the corporation may have a severe negative impact on the corporation's ability to continue operating.

"S" Corporation Tax Returns

An "S" corporation is generally a small, start-up business, with gains and losses passed onto stockholders in proportion to each stockholder's percentage of business ownership. The income for the owners comes from W-2 wages and is taxed at the individual rate.

The "compensation of officers" line on the IRS Form 1120S is transferred to the applicant's IRS Form 1040. Both depreciation and depletion may be added back to income in proportion to the applicant's share of income. However, income must also be deducted proportionately by the total obligations payable by the corporation in less than one year. The applicant's withdrawal of cash from the corporation may have a severe negative impact on the corporation's ability to continue operating which must be considered in the analysis.

Partnership Tax Returns

A partnership is formed when two or more individuals form a business and share in profits, losses, and responsibility for running the company. Each partnership pays taxes on his or her proportionate share of the partnership income. Both general and limited partnerships report income on the IRS Form 1065 "U.S. Return of Partnership Income;" it must be reviewed by the lender to assess the viability of the business. The partner's share of income is carried over to Schedule E of IRS Form 1040. Both depreciation and depletion may be added back to income in proportion to the applicant's share of income. However, income must also be deducted proportionately by the total obligations payable by the partnership in less than one year. The applicant's withdrawal of cash from the partnership may have a severe negative impact on the partnership's ability to continue operating that must be considered in the analysis.

LLC Corporation Tax Returns

A limited liability corporation (LLC) can be formed by one or more individuals. Only Massachusetts and the District of Columbia require two or more individuals. Owners in a LLC are referred to as members. A member of a LLC normally has at risk only his or her share of capital paid into the business. Members are not personally liable for the debts of the LLC.

There are three ways in which an LLC is taxed:

- Single-owner LLC - LLC owners are taxed on business profits each year on their individual income tax returns. The IRS treats the LLC as a sole proprietorship. Profits are reported on Schedule C of an individual 1040 tax return.
- LLCs – The IRS treats the LLC as a partnership. The LLC prepares and files IRS Form 1065, Partnership Information Return each year. LLC profits are allocated to each of the owners according to the profit-sharing arrangement set up in the LLC operating agreement. Each owner is given a Schedule K-1, which shows each owner's share of LLC income. The owner then reports and pays taxes on this income on the owner's 1040 income tax return.
- Check-the-Box Corporate Tax Treatment – Under these rules, any eligible business can elect to be taxed as a corporation by filing IRS Form 8832 "Entity Classification Election" and checking the corporate income tax treatment box on the form. After making this election, profits kept in the business are taxed at the separate income tax rates that apply to corporations.

Part H – Asset Assessment

H-1 – Asset Assessment

Although cash reserves after closing are not required for the SFHGLP, cash reserves are considered in the risk assessment provided by GUS. When disclosing the assets of the borrower on the “Assets and Liabilities” page of GUS, lenders have the responsibility to determine if the asset is liquid or readily converted to cash and can be done so absent retirement or job termination. Assets such as 401 (k)s, IRAs, etc. may be included in the underwriting analysis up to only 60 percent of the vested value. Funds borrowed against these accounts may be used for loan closing, but are not to be considered as cash reserves. Funds from gifts from any source are will not be included in the cash reserves calculation in GUS. The most recent 2 month average of liquid accounts such as checking or savings accounts may be considered as cash reserves. Documentation of assets will be retained in the lender’s permanent case file.

Assets should never be overvalued as it affects the risk assessment provided by the automated underwriting system and misrepresents the file presented for a Conditional Commitment for Loan Note Guarantee. A 2 month average of liquid assets most accurately represents the true value of the account since accounts, such as checking accounts often fluctuate significantly during the month from deposit to average balance. The lessor of the two month average balance or actual balance (as reported on the most recent statement) will be input on the “Assets and Liabilities” page of GUS if utilized in the underwriting decision. In lieu of entering assets in GUS, the lender may underwrite to the most conservative approach with no consideration of assets on the “Assets and Liabilities” page and underwriting recommendation. Note: As assets may also influence program eligible income, loans using GUS must still have verified and documented assets as part of the annual income calculation to determine the eligibility of the household.

Refer to Paragraph 9.4 of Chapter 9 of the USDA Handbook for additional information regarding assets and program eligible income.

As a reminder, assets may influence the calculation of annual income and/or the underwriting determination. For the purpose of computing annual income, the assets of all household members are considered. Refer to the USDA Handbook for an explanation of the difference between market value and cash value, an outline of the two methods of calculating the assets’ contributions to annual income, and a description of the procedures the lender must use to account for assets disposed of for less than fair market value.

Many types of assets generate income that must be included in the calculation of annual income. Applicants must provide information about assets at the time of loan application. The lender may collect this information in any format. Agency forms can be used to verify assets, however, equivalent forms or other types of documentation may be used if they provide all of the essential information that is required by the Agency’s forms contained in Appendix 2 of the USDA Handbook.

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

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- 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.

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.

H-3 – Gift Funds

Document through an executed gift donor letter; obtain proof of transfer from the donor to the applicant by obtaining a copy of the canceled check or other withdrawal document showing the withdrawal is from the donor's personal account, along with the homebuyer's deposit slip or bank statement that indicates the deposit. Establish the gift **does not** have to be repaid. Funds may be provided by the applicant's relative, employer or labor union, charitable organization, or government agency/public entity that has a program to provide homeownership assistance to low and moderate income applicants. Funds received from non-profit entities may not be used to pay installment loans, credit cards, collections, judgments, or other similar debts of the applicant. To the greatest extent possible, the donor must be able to furnish conclusive evidence that the funds given to the homebuyer came from the donor's own funds, and were not provided directly or indirectly by the seller, real estate agent, builder, or any other entity with an interest in the sales transaction.

Gift funds in applicant's bank account at time of loan application. Document the transfer of the funds from the donor to the homebuyer by obtaining a copy of the canceled check or other withdrawal document showing that the funds are from the donor's account. Evidence the homebuyer deposited the gift into their personal account is required.

Gift funds provided at loan closing. If the gift funds are not verified in the applicant's account at time of application and the transfer occurs at closing, the lender remains responsible for obtaining verification that the closing agent received funds from the donor for the amount of the purported gift and that the funds came from an acceptable source. Acceptable documentation includes

- 1) if the transfer of funds is by certified check, obtain a bank statement to document the withdrawal from the donor's account with a copy of the certified check or
- 2) if the transfer of gift funds is from a donor purchased cashier's check, money order, official check or bank check – obtain a withdrawal document or canceled check for the amount of the gift to evidence the funds came from the donor's personal account. "Cash on hand" is not an acceptable source of funds or
- 3) if the transfer of funds was via a wire transfer, obtain a wire transfer confirmation to verify the settlement agent received the funds from the donor for the amount of the gift.

Gift funds should be reflected on the application as a separate entry to the applicant's depository account(s). Gift funds should not be reflected in applicant's depository account balances. Gift funds will not be considered as cash reserves or a compensating factor in the underwriting decision.

Once gift funds are documented, verified and received, for the purposes of loan settlement, gift funds are considered the applicant's personal funds. Any excess funds at settlement that represent gift funds contributed may be returned to the applicant.

H-4 – Retirement Accounts

Assets such as 401 (k)s, IRAs, etc. may be included in the underwriting analysis up to only 60 percent of the vested value. Funds borrowed against these accounts may be used for loan closing, but are not to be considered as cash reserves.

H-5 – Stocks, Bonds, and Mutual Funds

Stocks, bonds, savings certificates, certificates of deposit, money market funds, and other investment accounts. The monthly or quarterly statement provided by the stockbroker or financial institution managing the portfolio may be used to verify the value of these securities. Government issued bonds such as savings bonds are counted at original purchase price, unless eligibility for redemption and redemption value are confirmed. Equity in real property or other capital investments, other than the subject dwelling or site of the loan request. Documentation to support the value of the property or investment and evidence of income received from investments must be obtained.

H-6 – Sales Proceeds of Real Property Sold

Sales proceeds of real property sold. Obtain a final HUD-1 or equivalent closing statement to indicate cash sales proceeds realized by the applicant. Proceeds from the sale of property should be included in the applicant's liquid assets.

For GUS enter information regarding the real property sold or pending on the "REO Property Information" section. For properties with a disposition of "Pending Sale," the calculation of "Net Equity" will automatically populate on the "Assets and Liabilities" applicant page. For properties with a disposition of "Sold" on the "REO Property Information" section, the lender must manually enter the "Net Equity" on the "Asset and Liabilities" application page.

Part I – Liability Analysis

I-1 – Debt-to-Income Ratio

Ratios are used to determine whether the borrower's repayment income can reasonably be expected to meet the anticipated monthly housing expense and total monthly obligations involved in homeownership. Weighing the circumstances that affect the borrower's ability and willingness to meet mortgage payments is an important part of the underwriter's ratio analysis. The Agency has established standards for principal, interest, taxes and insurance (PITI) and total debt (TD) ratios; however, there is flexibility in applying these standards. It is the Agency's intent to permit ratios to be exceeded when significant and valid compensating factors exist and clearly demonstrate unusual strengths exceeding basic program requirements.

The primary consideration when determining whether an applicant can afford to purchase a home is the applicant's repayment income. Repayment income, as described in Chapter 9 Section 2 of the USDA Handbook, is the amount of dependable and stable income parties to the note will have available to repay the debt.

However, other household expenses and debts also greatly affect an applicant's repayment ability. To qualify for a guarantee, borrowers must meet the Agency's standards for both the PITI and TD ratios.

The PITI Ratio

Applicants are considered to have repayment ability if they do not have to pay more than 29 percent of repayment income for monthly housing expenses. Monthly housing expenses include the following:

- Principal and interest payment on the mortgage;
- Hazard insurance premiums, whether escrowed or not;
- Real estate taxes, whether escrowed or not;
- Monthly escrow required for annual fee;
- Homeowners association dues;
- Flood insurance premiums, whether escrowed or not; and
- Special assessments.

Housing Payment History

- Document housing payment history as required by USDA/Gus.

Non Purchasing Spouse

- The non-purchasing spouse's credit history is not considered a reason to deny a loan application. In community property states, the non-purchasing spouse's obligations must be considered in the debt-to-income ratio unless excluded by State law. Lenders must comply with applicable lending laws in community property states. Lenders must obtain a credit report that meets the requirements of this Chapter for the non-purchasing spouse in order to determine the debts that must be counted in the debt-to-income ratio.
- The Agency's automated underwriting system will retrieve credit reports for applicants only. Therefore, lenders must obtain an acceptable credit report outside of the system. Liabilities for a non-purchasing spouse should be entered on the "Asset and Liabilities" page in the liability section. When recording the debt, lenders should reference the liability as a non-purchasing spouse debt in the "Notes" data field of the credit liability line. Lenders will retain a copy of the non-purchasing spouse credit report in their permanent mortgage file. Submit a copy to Rural Development when requesting a commitment for Loan Note Guarantee.

- Note: Non-purchasing spouse debts are required to be included per community property state lending laws. When these debts are manually entered by the lender, a GUS Accept recommendation is not required to be downgraded. i.e., Loans that receive an “Accept” in GUS do not require a downgrade to “Refer” when manually inputting and capturing the debts of a NPS.

Omitting Liabilities

- If a lender omits and adverse trade line when utilizing GUS and receives an “Accept” the applicant explanation letters and supportive documentation of adverse trade lines will be retained by the lender. The “Notes” section of the “Asset and Liabilities” page will reflect the lenders basis for omitting the tradeline.

Payment Shock

- Automated Underwriting System – GUS “Accept”. Payment shock is part of the underwriting risk evaluation and is not subject to further evaluation or documentation unless disclosed in the GUS Underwriting and Findings Analysis.

Total Debt Ratio:

- Applicants are considered to have repayment ability when they do not have to spend more than 41 percent of repayment income on total debt.
- Total debt includes monthly housing expense PITI plus any other monthly credit obligations incurred by the applicant. Obligations for child care, voluntary contributions to retirements such as a 401K, and open accounts with zero balance, are not considered a debt. The lender must document an applicant’s debt through various records including a credit report, direct or third-party verifications, court documents, and verification of deposits for loans. All applicant open debts/accounts (including collection accounts, charge-offs and judgments) incurred through the note date must be included in the calculation of debt payment-to-income ratio and captured under liabilities on the application. Monthly obligation expenses include:
 - PITI.
 - Regular assessments, such as homeowner assessments.
 - **Long-term obligations** with more than ten months repayment remaining on the credit report presented at underwriting, including all installment loans, revolving charge accounts, alimony, child support or separate maintenance payments, student loans and other continuing obligations.
 - **Revolving accounts.** The minimum monthly payment is required for all revolving credit card debts. Monthly payments on revolving or open-ended accounts are counted as a liability for qualifying purposes even if the account appears likely to be paid off within 10 months or less. If the credit report shows an outstanding balance, but no specific minimum monthly payment, the payment will be calculated as the greater of 5 percent of the balance as reported on the credit report, or \$10. If the lender obtains a copy of the current statement reflecting the actual monthly payment, that amount can be used for qualifying purposes. The lender must retain documentation in their permanent loan file. Revolving accounts with no outstanding balance do not require an estimated payment to be included in the debt ratio or to be closed to exclude a payment from the long-term debt ratio.
 - **30-Day Accounts.** A 30-day account is a credit arrangement requiring the applicant to pay off the outstanding balance on the account every month. A lender must verify the outstanding balance is paid in full on every 30-day account each month for the past 12 months. 30-day accounts that are paid monthly in full are not included in the applicant’s long-term debt ratio. If the credit report reflects any late payments in the last 12 months, a long-term monthly payment will be included. The lender will utilize 5% of the outstanding balance as the applicant’s monthly debt. Lenders will utilize the credit report to document the applicant paid the balance on the account monthly for the previous 12 months.
 - **Child support, alimony, garnishments.** Applicants obligated to pay child support, alimony, garnishments, or other court ordered debts must have payment included in the total debt ratio. If the applicant has a release of liability from the court/creditor, and acceptable evidence is obtained, the debt can be excluded. Lenders will utilize select pages from the applicable agreement/court order to document the required monthly payment due and the duration of the debt. For GUS transactions, the lender will manually enter the obligations on the “Additional Expenses” on the “Assets and Liabilities” page. A

- manual entry of obligation does not require an underwriting recommendation of “Accept” to be downgraded to a “Refer.” Lenders will ensure repayment agreements are current.
- **Child care expenses.** Child care expenses are not required to be considered as a recurring liability when calculating the total debt ratio.
 - **Student loans.** Lenders must include the payment as follows:
 - Fixed payment loans: A permanent amortized, fixed payment may be used in the debt ratio when the lender retains documentation to verify the payment is fixed, the interest rate is fixed, and the repayment term is fixed.
 - Non-Fixed payment loans: Payments for deferred loans, Income Based Repayment (IBR), Graduated, Adjustable, and other types of repayment agreements which are not fixed cannot be used in the total debt ratio calculation. The higher of one half percent (.50%) of the loan balance or the actual payment reflected on the credit report must be used as the monthly payment in the underwriter decision. No additional documentation is required.
 - **Previous mortgage.** Previous mortgage liabilities disposed of through a sale, trade or transfer without a release of liability will be included in the total debt ratio unless evidence can be obtained to confirm the remaining party (or new owner) has successfully made the payment in the previous 12 months prior to loan application.
 - **Co-signed obligations.** (Also known as co-borrower, joint obligator or guarantor). Co-signed debts must be considered in the total debt ratio unless the applicant provides evidence another obligor has made the payment on time in the previous 12 months prior to loan application. Acceptable evidence that demonstrates the remaining co-obligor’s history of making regular payments during the previous 12 months include canceled checks, money order receipts and/or bank statements of the co-obligor. Late payments reported in the previous 12 months prior to application will require the monthly liability to be included in the long-term repayment ratio of the applicant. Debts identified as “individual” on a credit report will always be considered in the debt ratio regardless of what party is making the monthly payment (as an example, parents making car payments on behalf of applicant and the loan is in the applicant’s name). If the applicant can provide conclusive evidence from the debt holder that there is no possibility that the debt holder will pursue debt collection against the applicant should the other party default, the 12 month history is not required.
 - **Business debts.** Business debts (for example – car loan) reported on the applicant’s personal credit report may be excluded from the debt ratio if the debt is paid through a business account. An example of acceptable evidence the debt is paid through a business account includes canceled business checks or bank statements for the previous 12 months.
 - **401(k) loans/personal asset loans.** Loans pledging personal assets, such as a 401(k) account, retirement funds, savings account or other liquid assets are not considered in the total debt ratio.
 - **Debts of a non-purchasing spouse (NPS).** For applicants who reside or are purchasing in a community property state, the debts of the NPS must be included in the applicant’s total debt ratio unless specifically excluded by state law.
 - **Collection/judgment accounts.** Collection accounts, as outlined in Paragraph 10.9 and 10.10 of Chapter 10 of the USDA Handbook will be included in the total debt ratio.
 - **Self-employed.** Negative income (loss) for a business will be deducted from repayment income prior to calculating the total debt ratio.
 - **Automobile Allowances and Expense Account Payments.** The amount of actual expenditures exceeding the amount of automobile allowance or expense account payments will be treated as recurring debt. Lenders will utilize IRS Form 2106, *Employee Business Expenses*, for the previous two years and employer verification that the payments will continue as documentation to support the calculation. The applicant’s monthly car payment will be treated as recurring debt and will not be offset by any car allowance. If an applicant utilizes the standard per-mile rate as opposed to the actual cost method on IRS Form 2106, the portion that the IRS considers depreciation may be added back to income for repayment purposes.
 - **Rental loss.** Negative net rental income will be treated as a recurring liability and included in the total debt ratio.
 - **Short-term obligations** that are considered to have a significant impact on repayment ability, such as large medical bills and car or other credit payments.

- **Payments that will come due in the next 24 months**, including personal loans with deferred installments and balloon payments. Additional guidance surrounding student loan repayment is provided earlier in this section and not applicable under this subject. If the interest rate on a deferred loan is unknown, the lender should estimate the monthly payments using an interest rate that is reasonable and customary for the type of loan.

GUS underwritten loans receiving an “Accept”- Debt ratio waiver requirements do not apply to GUS files that receive an “Accept” underwriting recommendation or an “Accept” underwriting recommendation that requires a “Full Documentation” loan submission as part of a quality control message on the GUS Underwriting and Findings Report.

Paying Down/Off Debt to Qualify:

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:

- Paying down debt to less than 10 months to avoid including in the debt ratio is generally not permitted. All USDA/GUS requirements for “omitting” a debt or indicating “paid by close” must be adhered to. Refer to “Long Term” and “short-term” obligations above, as applicable.
- Any installment debt being paid off to qualify must be paid off and closed at or before closing; proof will be required in all instances
- Revolving debt cannot be paid down to qualify; revolving debt may be paid off to qualify when proof of the debt being paid and closed prior to CTC is available, except in the case of a cash-out refinance, where the debt must be closed prior to loan closing, but may be paid-off at closing with loan proceeds and shown on the HUD-1

Part J – Property Eligibility

The lender must ensure the subject property meets the Agency’s site guidelines. The site must be developed according to state or local government standards, which often are contained in zoning ordinances, building codes, subdivision regulations, and/or construction standards. In particular, sites must be in rural areas; meet community standards regarding utilities, including water and wastewater systems; meet street and road access and maintenance requirements; and contain other amenities essential to the continued marketability of the home. Refer to the USDA Handbook for USDA property and site eligibility.

Also, refer to Part K “Geographic Restrictions”, as applicable.

J-1 – Eligible Collateral

- Single Family Dwellings, including townhomes and row homes
- Condominiums (must meet requirements of HUD/FHA, VA, Fannie Mae, or Freddie Mac).
 - By submitting the request for Conditional Commitment for Loan Note Guarantee, the lender represents the condominium project meets the requirements set forth by HUD/FHA, VA, Fannie Mae or Freddie Mac. Lenders must retain evidence they have reviewed condominium documentation that supports the project’s approval or acceptance by HUD/FHA, VA, Fannie Mae, or Freddie Mac and that the documentation remains available in the lender file for verification purposes.
 - Consumer Services/Wholesale – refer to Loan Program Matrix for additional restrictions on Florida condos.
- Site Condominiums - Project approval may not be required for site condominiums if they meet the following criteria:
 - Single Family totally detached dwelling encumbered by a declaration of condominium covenant or condominium form of ownership.
 - The unit has no shared garage or any other attached buildings (i.e. archways, breezeways).
 - The condominium unit consists of the entire structure, site and air space and are not considered to be common areas or limited common areas.

Site condominiums that do not meet the criteria must follow regular condominium approval requirements.
- 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 must meet all USDA property eligibility requirements and will be reviewed on an exception basis only; like comparables must be provided.

J-2 – Ineligible Collateral

- Manufactured/Mobile Homes
- 2-4 Unit Properties
- 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
- Bed and Breakfast Properties
- Properties not suitable for year-round occupancy
- Properties not accessible by roads meeting local standards
- Co-ops
- Properties not typical for the area and lacking comparables (i.e. geodesic homes, log cabins, etc.)
- Leaseholds
- Timeshares
- Property Flip when Non-Arm’s Length Transaction

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- Properties appraised with condition C5 or worse
- 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)
 - Utilities turned off

J-3 – Manufactured Homes

Manufactured homes are ineligible regardless of USDA acceptance.

J-4 – 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.

CMG Ineligible List

All loans will be reviewed against the Ineligible Appraiser List. If an appraisal is completed though an appraiser on the list, additional appraisal products may be required.

APPROVED AMCs

Consumer Services / Wholesale: Appraisals must be ordered through an approved AMC.

J-5 – Appraisal Forms and Exhibits

Table J-5-A: Appraisal Forms and Exhibits

<p><u>FNMA 1004</u> - Uniform Residential Appraisal Report</p>	<p>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</p>
<p><u>FNMA 1073</u> - Individual Condo Unit Appraisal Form</p>	<p>This form is used to appraise individual units located in an individual condominium unit. It includes both an interior and exterior inspection</p>
<p><u>FNMA 1004D</u> – Appraisal Update and/or Completion Report</p>	<p>For appraisal updates and/or completion reports for all one-to-four unit appraisal reports</p>
<p><u>FNMA 1004MC</u> – Market Conditions Addendum</p>	<p>Required for all properties. Form 1004MC is intended to provide CMG/correspondent with a clear and accurate understanding of the market trends and conditions prevalent in the subject neighborhood. The form provides the appraiser with a structured format to report the data and to more easily identify current market trends and conditions. There are several shaded areas in the form to recognize that not all data may be available from the data sources used by the appraiser and therefore the information may not be provided. The lack of completion in these areas is acceptable as long as the appraiser provides an explanation as to why these sections of the form are not complete. However, if the data is available, the appraiser must include the data in the analysis.</p>

Note: USDA may be added to the appraisal as an intended user, but it is not required

REQUIREMENTS & EXHIBITS FOR APPRAISALS

Residential appraisals will be completed using the sales comparison approach. The income approach is only needed if the appraiser determines that it is necessary to develop credible assignment results. The cost approach may be completed at the appraiser or lender's request.

- Not less than three comparable sales will be used unless the appraiser provides documentation that such comparable sales are not available. The appraiser must use their knowledge of the area and apply good judgment in the selection of comparable sales that are the best indicators of value for the subject property.
- Either the "Estimated Reproduction Cost" or the "Estimated Replacement Cost" will be completed for all dwellings that have an actual age of more than 1 year. The appraiser will identify the source of the cost estimates and will comment on the methodology used to estimate depreciation, effective age and remaining economic life.

An appraisal prepared for REO purposes, or for any other purpose other than for a purchase transaction, is not acceptable for a loan guarantee. A new appraisal with the intent to arrive at an opinion of value for a purchase transaction must be obtained.

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

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- 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,
- Condominium projects should include additional photographs of the common areas and shared amenities.

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,
- Sketch to include porches, patios, and garages
- Photos to include front and rear at opposite sides to get all angles of property and street scene to include a portion of the subject property

J-6 – Appraisal Transfer

All CMG requirements/restrictions regarding conventional conforming appraisal transfers apply in addition to the below:

An appraisal ordered by another lender for the applicant can be transferred to the lender who will complete the purchase transaction. The initial lender must agree to the transfer of the report. A letter from the initial lender who ordered the appraisal report must be retained in the permanent loan file as evidence the lender transferred the report to the lender completing the purchase transaction. The receiving lender must assume full responsibility for the integrity, accuracy and thoroughness of the appraisal report including the methods that the original lender used to acquire the appraisal. The appraisal report must be no older than 120 days at loan closing to be valid.

J-7 – 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-8 – 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. See section M, Escrow Holdbacks for information on Repair Escrows.

J-9 – 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:

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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:
 - Reliable surveys and affidavits;
 - 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.

Part K – 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).

- Texas transactions when converting a home equity loan (A6) to a non-home equity loan are not eligible

Consumer Services/Wholesale – refer to Loan Program Matrix for additional restrictions on Florida condos.

RURAL AREA DESIGNATION [7 CFR 3555.201(a)]

Only loans secured by properties located in areas designated by the Agency as rural are eligible to receive a loan guarantee. This section discusses rural areas designations, how lenders are notified of changes in rural area designations, and clarifies rare situations in which loans for properties in areas no longer designated as rural may receive a loan guarantee.

Rural Area Definition

An area's rural designation is determined by the Agency and may be changed as a result of periodic review or after the decennial census of population. The Agency conducts reviews every five years to identify areas that no longer qualify as rural. In areas experiencing rapid growth and in eligible communities within Metropolitan Statistical Areas (MSAs), reviews take place every three years. Public notification will be given at least 30 days before the date of the final determination in order to give interested parties an adequate chance to comment. Refer to section 3550.10 of 7 CFR 3550 and Handbook Chapter 5, Paragraph 5.3 of 7 CFR 3550 for additional information regarding rural area designations.

Notification of Rural Area Designation

The public website noted below provides maps of all ineligible areas in the lender's service area when the lender is approved to participate in the SFHGLP. The Agency will inform lenders of changes in rural area designations. Users who utilize the public website will receive one of three property eligibility decisions when inputting an actual address – "Eligible," "Ineligible," or "Unable to Determine." In areas not clearly delineated, users will receive an "Unable to Determine." With this type of determination, the lender must confirm with Agency staff the property is located in a rural area and eligible for a guarantee prior to requesting an appraisal. Agency staff and lenders may use the following Internet site to determine whether a specific site is in an eligible area:

<http://eligibility.sc.egov.usda.gov/eligibility/>

Attachment 12-A of the USDA Handbook provides guidance on utilizing the public website to determine eligible rural areas.

Part L – Disaster Policy

L-1 – General Information

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

Refer to the list of affected counties published by FEMA for Individual Assistance only at the following link:

http://www.fema.gov/news/disaster_totals_annual.fema

- CMG will require recertification from the appraiser on all loans located in the affected Counties prior to closing;
- If the county is indicated as being in a declared disaster area, the policy must be adhered to;
- The Disasters are referenced with both an incident start date and an incident ending date. The property is considered potentially impacted for 120 days from the incident END date to the date of the property inspection or valuation date;
- If a full appraisal was obtained on the property prior to the declared disaster, the inspection must verify the property is sound and habitable and in the same condition as when it was appraised. Any of the following options are acceptable to satisfy this requirement:
 - A 1004D Final Inspection or Appraisal Update signed by the original appraiser
 - FNMA 2075 – Desktop Underwriter Property Inspection Report
 - DAIR – Disaster Area Inspection Report
- Full appraisals obtained after the declaration need to indicate the property has not been impacted by the disaster;
- If the loan qualified for a non-standard appraisal (Property Valuation Update, PIW, 1075, 2055, 2075, 2095) and a Disaster has been declared prior to funding or purchase, a full appraisal with interior and exterior inspection dated **after** the incident period end date is required. The non-standard appraisal product is not permitted for 120 days after the disaster incident period end date;
- Retail CMG branches will request the appropriate appraisal or inspection through the normal channels

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

Part M – Escrow Holdbacks

M-1 – General Information

Holdback for interior items not permitted regardless of USDA eligibility.

When exterior development work is planned and cannot be completed because of inclement weather, material shortages, or other acceptable reasons, an escrow account may be established subject to meeting the following minimum requirements:

- **10% Cushion Required.**
- **Refer to any additional CMG Corporate Policies, as applicable.**
- **USDA’s requirements for Escrow for Exterior Development [7 CFR 3555.202(c)] must be met:** The Agency may issue a Loan Note Guarantee prior to the completion of repairs provided the following conditions are met:
 - The cost of any remaining work, exterior or interior, is not greater than 10 percent of the final loan amount;
 - The livability of the dwelling is not affected;
 - A signed contract between the borrower and the contractor is in effect for the proposed work and the funds to be escrowed are not less than the contract;
 - The HUD-1 reflects the holdback;
 - The development will be complete within 180 days of closing; and
 - The escrow account is established in a federally supervised financial institution.
 - Certification of completion is required to verify the work was completed and must:
 - Be completed by the appraiser;
 - State that the improvements were completed in accordance with the requirements and conditions in the original appraisal report;
 - Be accompanied by photographs of the completed improvements; and
 - The individual performing the final inspection of the property must sign the completion report.
 - The lender is responsible for monitoring the completion of the work and the release of funds for payment. Documentation supporting the development work and confirmation of the completion will be retained in the lenders permanent mortgage file.
 - **Funds remaining in the escrow account upon completion of the work will be used to reduce the unpaid principal balance of the mortgage.**

Part N – Property Insurance

N-1 – Escrows for Taxes and Insurance

Escrows are always required on USDA loans, regardless of LTV.

N-2 – Hazard Insurance

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

- Hazard insurance providers should have ratings in accordance with the requirements noted in “Agent Rating Requirements”.
- Hazard insurance policies should conform to the GSE coverage requirements of “the standard extended coverage endorsement,” which states that a policy cannot be accepted that in whole or part excludes wind, hurricane or catastrophe insurance unless the coverage is provided in another policy with the same coverage limits as the hazard policy.
- Borrower occupied properties should have replacement cost coverage in an amount equal to the insured value of the improvements or the unpaid principal balance with deductible(s) which does not exceed the greater of either \$1,000 or 1 percent of the policy coverage.

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 the following rating requirements. The carrier only needs to meet only one of the following rating categories, even if it is rated by more than one agency.

Table N-2-A: Agent Rating Requirements

Rating Agent	Rating
Demotech, Inc. http://www.demotech.com/01_pages/fsr/search.aspx	an “A” or better rating in <i>Demotech's Hazard Insurance Financial Stability Ratings</i> .
A.M. Best Co. http://www3.ambest.com/ratings/default.asp	a “B” or better Financial Strength Rating in <i>Best's Insurance Reports</i> or a “6” or better financial performance index rating in Best's Key Rating Guide OR an “A” or better Financial Strength Rating and a Financial Size Category of “VIII” or greater in <i>Best's Insurance Reports Non-US Edition</i> .
<u>Standard and Poor's Inc.</u>	a “BBB” or better claims paying-ability rating in S&P's International Confidence Rating Service OR a “BBBq” qualified solvency ratios or a “BBB” or better claims paying ability rating in S&P's Insurer Solvency Review OR An “Aaisi” in its International Confidence Rating Service

Other Acceptable Insurance Underwriters

- Policies underwritten by a state's Fair Access to Insurance Requirements (FAIR) plan, if it is the only coverage that can be obtained,

- Policies obtained through state insurance plans—such as the Hawaii Property Insurance Association (HPIA), Florida's Citizens Property Insurance Corporation, or other state-mandated windstorm and beach erosion insurance pools—if that is the only coverage that is available, and
- A separate windstorm and earthquake policy issued by the Virgin Islands Windstorm and Earthquake Insurance Authority (for properties in the Virgin Islands) or a separate hurricane insurance policy issued by the Hawaiian Hurricane Relief Fund (for properties in Hawaii), as long as the companion non-catastrophic fire and extended coverage (or homeowner's) policy is obtained from a hazard insurer that satisfies Fannie Mae's rating criteria.

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

- Borrower occupied properties should have replacement cost coverage in an amount equal to the insured value of the improvements or the unpaid principal balance with deductible(s) which does not exceed the greater of either \$1,000 or 1 percent of the policy coverage.

Required Coverage for PUDs or Condos

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

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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 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	All States Except CA: A liability policy of \$1,000,000 minimum per any single occurrence is required CA projects (100 or fewer units): A liability policy of \$2,000,000 minimum per any single occurrence is required CA Projects (>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’)
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 Bond	Required for new and established projects with more than 20 units. 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: <ul style="list-style-type: none"> • Be in an amount equal to no less than the maximum amount of funds in the HOA’s reserve account; or • 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
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	All States Except CA: A liability policy of \$1,000,000 minimum per any single occurrence is required
	CA projects (100 or fewer units): A liability policy of \$2,000,000 minimum per any single occurrence is required
	CA Projects (>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')
Hazard Coverage	No master policy verification is required. Each individual owner must provide a hazard insurance policy for the residence. If all hazard insurance is carried by the association's blanket policy that includes all the residences, the policy must cover 100% of the insurable value and must include an insurable value 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.
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

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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

Existing dwellings are eligible under the SFHGLP only if flood insurance through FEMA's National Flood Insurance Program (NFIP) is available for the community and flood insurance whether NFIP, "write your own", or private flood insurance, as approved by the lender, is purchased by the borrower. Lenders are required to accept private flood insurance policies that meet the requirements of 42 USC 4012a(b)(1)(A). Insurance must be obtained as a condition of closing and maintained for the life of the loan for existing residential structures property when any portion of the structure is determined to be located in a SFHA, including decks and carports, etc. However, according to the Homeowner Flood Insurance Affordability Act (HFIAA) of 2014, flood insurance is not required for any additional structures that are located on the property but are detached from the primary residential structure and do not serve as a residence, such as sheds, garages, or other ancillary structures. Existing dwellings are not subject to the requirements which requires a search for practicable off-site alternatives to purchasing an existing dwelling within the SFHA.

New or proposed construction in an SFHA is ineligible for a loan guarantee unless:

- A final Letter of Map Amendment (LOMA) or final Letter of Map Revision (LOMR) removes the property for the SFHA is obtained from FEMA, or;
- The lender obtains a FEMA National Flood Insurance Program Elevation Certificate (FEMA Form 086-0-33). The flood elevation certificate must document that the lowest floor (including the basement) of the residential building, and all related improvements/equipment essential to the value of the property, are built at or above the 100-year flood elevation in compliance with National Flood Insurance Program (NFIP) criteria. The flood elevation certificate must be prepared by a licensed engineer or surveyor.

Documentation must be included in the file in accordance with 7 CFR 1940 Subpart G Exhibit C that there is a demonstrated need for the SFHGLP and there are no practicable alternatives to new construction within the SFHA.

Note: Part of the site may be located in the SFHA without triggering these requirements, as long as no part of the dwelling is located in the SFHA. At the lender's discretion they may require flood insurance even if the residential building and related improvements to the property are not located within the SFHA, but the lender has reason to believe that the building and related improvements to the property may be vulnerable to damage from flooding.

Flood insurance must cover the lesser of the outstanding principal balance of the loan or the maximum amount of coverage allowed under FEMA's National Flood Insurance Program (NFIP). Unless a higher amount is required by state or federal law, the maximum deductible clause for a flood insurance policy should not exceed the greater of \$1,000 or 1 percent of the face amount of the policy.

Dwellings located within the SFHA which are not served by public sewer systems and have on-site septic or sewage treatment systems must have a drinking water supply which is protected from cross contamination from the onsite septic/sewage treatment during flooding. One of the following must be met for a property serviced by an on-site septic or sewage treatment system:

- The property is served by a publicly provided water supply
- The property is serviced by a private drinking water well/supply with a fitted sanitary well cap which prevents backflow floodwater from entering the drinking supply well.
- The property is served by a private drinking water well/supply whose opening is located above the base flood elevation of the SFHA. Additional documentation, such as an elevation certificate, will be required to verify this type of property.

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, 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. CMG will use an independent rating measure from LACE Financial to ensure the title company meets the following minimum acceptable standards:

- LACE Rating of B or better
- Peer Groups 1 through 3

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.
- Title Company must have a LACE Rating of a B or higher and must be in peer group 3 or higher.
- 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.