Breech, Mariana

From: CLD ABQ
Sent: Thursday, December 13, 2018 2:25 PM
To: CLD ABQ
Subject: Cornerstone Home Lending, WINK! Announcement - Fannie Mae Various Updates

Cornerstone HOME LENDING, INC.

Correspondent Lending Division **WINK! Communication** **December 13, 2018**

Fannie Mae Various Updates

LOAN TYPE:

☐ All Programs ☒ **FNMA** ☐ FHLMC ☐ FHA ☐ VA ☐ HUD-184 ☐ USDA ☐ Non-Agency

EFFECTIVE DATE:

Effective dates noted within each topic below.

WHAT I NEED TO KNOW!

Commission Income & Unreimbursed Business Expenses –
FNMA is removing the different treatment of commission income based on the percentage of employment income. Going forward, **all commission income will be treated the same**, and individual tax returns (or tax transcripts) will no longer be required. This change is the result of recent changes made by the IRS that are effective with the reporting of 2018 federal income taxes.
Currently, unreimbursed employee expenses are reported as a deduction on the borrower's individual federal income tax return (IRS Form 2106, or IRS Form 1040, Schedule A or C). These expenses are used when calculating an automobile allowance and commission income when it is 25% or more of employment income.
As a result of the tax law changes that will prevent Lenders from being able to identify unreimbursed business expenses, FNMA is removing the requirements for IRS Form 2106, and changing the automobile allowance policy. The full amount of an automobile allowance may now be included as income and the lease or financing expenditure must be included as a debt in the calculation of the DTI. (Note that a history of receipt of this income continues to be required.)
NOTE: Look for communication from other agencies on this topic in the coming weeks.

Effective Date: Lenders may implement these changes immediately and are no longer required to obtain tax return documentation or tax transcripts to identify unreimbursed business expenses.

DU will be updated in a future release. Until then, Lenders may disregard the requirement to obtain IRS Form 1040 or Form 2106 for commission income and automobile allowance.
Loans that include qualifying income from an automobile allowance that is calculated following the "actual cash flow approach" must continue to include IRS Form 2106. This includes the practice of directly offsetting an automobile lease payment with an automobile allowance if the lease payment is captured as an expense on Form 2106. This applies when 2016 or 2017 returns were used in the analysis process for qualifying income.
Until the DU Validation Service (Day 1 Certainty) is updated, Lenders must continue to obtain a tax transcript for borrowers with commission income that is 25% or more of employment income to be eligible for income validation.

Appraisal Waiver Policy for Disasters – Effective with DU submissions or resubmissions on or after the weekend of December 8.2018
Previously, Lenders could not exercise an appraisal waiver offer on loans that were in process at the time of a disaster but were required to obtain an appraisal instead. With this update, we are adding the flexibility that lenders are now permitted to exercise appraisal waiver offers on loans in process at the time of a disaster. In order to use this flexibility, lenders must meet the same property eligibility requirements currently in place for loans already closed but not yet delivered when a disaster strikes:

- If the property was damaged and the damage does not affect the safety, soundness or structural integrity of the property and the repair items are covered by insurance, the Lender
    - may deliver the loan to FNMA,
    - must obtain documentation of the professional estimates of the repair costs, and
    - ensure that sufficient funds are available for the borrower's benefit to guarantee the completion of the repairs.
- If the property was damaged and the damage is uninsured or the damage affects the safety, soundness, or structural integrity of the property, the property must be repaired before the loan is delivered to FNMA.

DU was updated the weekend of December 8, 2018 to include a new message that will be issued on loan casefiles for properties located in a disaster impacted area that received the appraisal waiver offer prior to the disaster. Refer to **DU Version 10.3 Release Notes** for additional information.

On-Frame Modular and Modular Construction – Effective Immediately
To better support affordable and rural housing supply, FNMA is updating policies related to modular homes. On-frame modular homes that comply with local building codes, attached to a permanent foundation, and are built using the same materials as comparable stick-built homes are now an eligible property type. These homes will follow the same eligibility and underwriting criteria as stick-built homes. We are also clarifying that multi-unit buildings such as attached condos and townhomes may be built using modular construction techniques that comply with local building codes. No additional delivery data points are required as a result of these changes.

Small Business Administration (SBA) Loans –

FNMA is clarifying that all SBA loans secured by the subject property must be treated as subordinate financing and included in the calculation of the CLTV and HCLTV ratios. The monthly payment of the subordinate lien must also be included in the borrower's DTI calculation unless the requirements in Business Debt in Borrower's Name in B3-6-05, Monthly Debt Obligations can be satisfied.

Effective Date: May be implemented immediately but must be implemented by March 1, 2019. The related messaging in DU for loan casefiles with subordinate financing without a corresponding payment will be updated in a future release to reference the exception permitted for SBA loans.

HOW DOES THIS AFFECT ME?

GOOD NEWS! You can begin implementing these new flexibilities now offered by FNMA.

Jason Kershaw
Operations Manager
Correspondent Lending Division
Phone: (505) 814-7780
eFax: (866) 308-9145
Email: JKershaw@houseloan.com

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HOME LENDING, INC.