



**TO: Correspondent Lenders**  
**FROM: Angela Breidenbach, Operations Manager**  
**DATE: April 5, 2012**  
**RE: FNMA AND FHLMC REQUIREMENTS FOR TAX RETURNS  
CONSTRUCTION TO PERM CHANGES  
AGRICULTURAL EXEMPTION (TX only)**

As you are aware, Cornerstone Correspondent Lending Division (CLD) securitizes your conforming loans directly with the agencies (FNMA, FHLMC, GNMA). This means, that with very few exceptions (Overlays), we follow agency guidelines. Lately, we have received several questions regarding the requirements for 2011 tax returns and construction to permanent financing. The following two topics relate to FNMA/FHLMC guidelines for each of these inquiries

### **FNMA AND FHLMC REQUIREMENTS FOR TAX RETURNS**

#### **Commission Income**

*Documentation Requirements.* DU will recommend one of the following levels of documentation based on the percentage of commission income to salary income (including base, commission, overtime, and bonus income):

- Commission income less than 25% of borrower's salary income:
  - one paystub, or
  - one paystub and the previous year's W-2.
- Commission income equal to or greater than 25% of borrower's salary income:
  - one year's most recent personal signed federal income tax return, or
  - two years' most recent personal signed federal income tax returns.

The tax returns must include a minimum of six months of commission earnings for the income to be used for qualifying purposes.

If it is more than 60 days from the date of the last filed tax return, obtain a current paystub or IRS Form 1099 and confirm that current earnings support the income on the tax returns.

For loans originated between January 1 and April 15, if the borrower has not yet filed his or her prior year's tax return, the lender must determine if alternative documentation, including IRS Form 1099 or W-2 from the previous year, is sufficient to document the commission income for the year. Taking into consideration business expenses that are deducted from earnings, the lender should develop an average monthly net income for qualifying purposes based on the documentation requested in the Underwriting Findings report.

Additionally, the lender must review a current paystub to confirm that the commission income on the paystub supports the commission income reported on the IRS Form 1099 or W-2 from the prior year.

## **Self-Employment Income**

*Documentation Requirements.* DU will recommend one of the following levels of documentation:

- one year's most recent personal signed federal income tax return,
- two years' most recent personal signed federal income tax returns, or
- two years' most recent personal and two years' most recent business signed federal income tax returns. Business tax returns do not have to be provided unless the business is a corporation, an S corporation, or a partnership.

The tax returns must include a minimum of six months of self-employment income for the income to be included.

For loans originated between January 1 and April 15, if the borrower has not yet filed his or her prior year's tax return, the lender must determine if alternative documentation, including IRS Form 1099 or W-2 from the previous year, is sufficient to document the self-employment income for that year. Taking into consideration business expenses that are deducted from earnings, the lender should develop an average monthly net income for qualifying purposes based on the documentation requested in the Underwriting Findings report.

## **CONSTRUCTION TO PERM CHANGES**

Effective with all applications taken on and after March 12, 2012, the length of time the borrower has owned the lot is no longer a factor in calculating the LTV ratios on a construction to permanent end loan.

Construction to permanent refinance transactions can utilize the as completed appraised value instead of the lesser of cost or appraised value to calculate the LTV ratios of FHLMC and FNMA Agency loans.

**However, if there is evidence of construction costs in the loan file, Freddie Mac still requires the LTV calculations based on the lesser of the acquisition cost or appraised value.**

## **AGRICULTURAL EXEMPTION (TX only)**

Due to recent enforcement, and ensuing legal cases, of a Texas statute preventing title companies from issuing required T30 Endorsements on agriculturally exempt properties, Cornerstone has made the following determination on these properties:

- Texas Equity – not allowed. This is not a change, but a re-iteration of the current statute.
- Purchases and Rate Term Refinances – a one acre parcel, that includes the home to be financed, must be removed from the Agricultural Exemption. The tax search must identify that the removal has occurred.

Don't hesitate to contact us if you have questions regarding these, or any other issues. We can be reached as follows: [abreidenbach@houseloan.com](mailto:abreidenbach@houseloan.com) or (505)814-7784, [jposen@houseloan.com](mailto:jposen@houseloan.com) or (505)814-7788, [ncorlett@houseloan.com](mailto:ncorlett@houseloan.com) or (214-780-0770).

As always, your business is greatly appreciated!