



TO: Correspondent Lenders
FROM: Angela Breidenbach, Operations Manager
DATE: May 18, 2012
**RE: LQI DOCUMENT REQUIREMENTS
REQUIRED BENEFIT TO BORROWER FORM
FHA MANUAL UNDERWRITING GUIDELINES/OVERLAYS**

LQI DOCUMENT REQUIREMENTS

As you are aware, beginning in early 2011, Fannie Mae (FNMA), in conjunction with Freddie Mac (FHLMC) and the Federal Housing Administration (FHA), began to announce their Loan Quality Initiative (LQI). At its core, LQI was implemented to promote complete and accurate loan data, eliminate the delivery of ineligible loans, and reduce repurchase risk and pricing errors. The initial components of LQI required lenders to adhere to stricter internal quality control measures designed to insure that loan data compiled during the origination, processing and underwriting process is a true and accurate representation of data transmitted to the agencies upon delivery of the mortgage loan. Specifically, LQI requires extra validation of Borrower Identity, Borrower Occupancy, Validation of Qualified Parties, Undisclosed Liabilities and Income/Employment.

To date, Cornerstone has allowed our Correspondent Partners to carry out LQI guidelines in accordance with their internal interpretations of the initiative; meaning, for example, if your internal interpretation of LQI did not involve running a refreshed credit report, then Cornerstone did not require a refreshed credit report.

While idyllic in theory, the downfall to this approach has led to numerous and significant agency (FNMA, FHLMC) audit exceptions, up to, and including repurchase demands.

Therefore, regardless of loan type (Conv, FHA, VA) **all loans submitted for purchase, on or after June 18th, 2012, must include the following documentation:**

- A validation of each borrower's social security number with the Social Security Administration.
- A refreshed credit report for all applicants pulled prior to closing. If additional liabilities are discovered, they must be listed on the final 1003 and DU/LP must be updated to reflect.
- A verbal VOE for each borrower, whose income is being considered in qualifying for the mortgage loan, dated within 5 days prior to closing.
- Most recent 2 years W-2 transcripts, OR W-2 transcripts for number of year(s) used in underwriting; whichever is **less**. If self employed, most recent 2 years tax transcripts, OR transcripts for number of years used in underwriting; whichever is **less**.

Also, as a reminder: **PLEASE remember to include Excluded and Related Parties Searches (LDP/EPLS) reports in every file.**

REQUIRED BENEFIT TO BORROWER FORM

Effective with all owner occupied rate term refinances submitted for purchase, **on or after June 15, 2012, Cornerstone will require a completed Benefit to Borrower form.** You may use the attached version, OR you may use your own version. If you chose to use our version, it will be provided in the Forms section of the Correspondent web-site: www.chlcorrespondent.com.

Please note, if you are in a state that already requires this form, then please use the version already approved by your company or document fulfillment service.

FHA MANUAL UNDERWRITING GUIDELINES AND OVERLAYS

Cornerstone does allow manual underwriting on FHA loans. **Our overlays are as follows:**

- Minimum FICO 640.
- Bank statements cannot have NSF's.
- No derogatory credit in the last 12 months from date of application.
- Verification of Rental, with borrower explanation plan for budget, if payment increasing more than 50%

Additionally, in our experience, these loans are automatically audited by the agencies. Because you are not protected by the reps and warranties provided by running a loan through an AUS, it is extremely important that you CAREFULLY follow all FHA manual underwriting guidelines. **Please pay particular attention to the following:**

If using Non Traditional Credit:

- FHA wants the credit to be verified and compiled on a Non Traditional Credit Report (NTMCR) or (RMCR).
- Note: Only if an NTMCR is impractical, or such a service is unavailable, may a lender choose to obtain independent verification of trade references.

Self Employed Borrowers:

- P & L and Balance Sheet, or income information directly from the IRS, if both of the following conditions exist: **1)** More than 7 months have elapsed since the business tax years ending date; and **2)** Income to the self employed borrower from each individual business is greater than 5% of His or Hers stable monthly income.

Maximum DTI:

DTI Guidelines of 43% apply, and can only be exceeded, within reason, if accompanied by published FHA Compensating Factors.

Please 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 or (505)814-7784, jposen@houseloan.com or (505)814-7788, ncorlett@houseloan.com or (214)780-0770.