TO: Correspondent Lenders

FROM: Angela Breidenbach, Operations Manager

DATE: January 10, 2011

RE: **CORRESPONDENT BEST PRACTICES**

As we enter into our sixth month of correspondent production, we are beginning to see some consistent audit concerns, and would like to take the opportunity to address several Best Practice Procedures, that we believe will help alleviate most of these issues.

In our ever changing and increasingly challenging industry, it is our sincere desire to help our correspondent partners originate, process and close loans that exceed investor expectations. Therefore, please take the time to read these carefully, and implement adequate internal controls and processes designed to keep audit exceptions at a minimum.

Documenting Loans to LP/DU Findings

Please take extra time to make sure that loans are completely documented to the LP or DU findings, and that all documentation relied upon in making the credit decision is in the file to be shipped to Cornerstone. The extra few minutes that this will take, will potentially save a lot of time and frustration on the back end.

HVCC

We have seen quite a few loans where the appraiser is putting the Loan Officer on the contact line. Although we certainly believe that HVCC procedures are being followed to the letter of the law, there are significant concerns that this could be misconstrued by FHLMC or FNMA as a violation of HVCC. Please make sure your appraisers are putting the non-commissioned third party personnel name in the contact line, or better yet, have them leave it blank.

FNMA LQI

Due to the somewhat interpretive nature of the Fannie Mae Loan Quality Initiative announcements, we are seeing a broad range of documentation relating to LQI, and would like to offer some suggestions. Although the implementation of these suggestions is not required, we are strongly encouraging our correspondent partners to adhere to a stringent set of guidelines, on the following LQI issues:

Issue #1 – Validation of Social Security or Tax Identification Numbers

FNMA Announcement 2010-01: Selling Guide Updates for the Loan Quality Initiative (*Corrected Lender Letter LL-2010-03)(03/02/10) **states**: The Selling Guide currently does not require a borrower to have a Social Security number. Fannie Mae is updating this policy to require that all borrowers have a valid Social Security Number or Individual Taxpayer Identification Number (ITIN) (in addition to meeting existing legal residency and documentation requirements). **Lenders must resolve any Social Security number issues that are identified by DU or Fannie Mae's Loan Delivery system, including invalid formats, numbers not issued, borrower age/issue date discrepancies, or Social Security numbers associated with deceased individuals.** If a lender cannot resolve any inconsistencies, the lender must validate the Social Security number with the Social Security Administration (SSA).
If the Social Security number cannot be validated with the SSA, the loan is not eligible for delivery to Fannie Mae– **for all loan applications dated on or after June 1, 2010.**

Cornerstone suggests the use of Rapid Reporting, or similar third party SS# verification system.

<u>Issue #2 – Validation of Qualified Parties to the Transaction</u>
FNMA Announcement 2010-01: Selling Guide Updates for the Loan Quality Initiative (*Corrected Lender Letter LL-2010-03)(03/02/10) **states**: Fannie Mae is implementing a new policy that requires lenders to confirm that companies or individuals involved in the origination, underwriting, or servicing of the mortgage transaction are not on the General Services Administration (GSA) Excluded Party List or the HUD Limited Denial of Participation List ("LDP List") prior to delivery of the loan. Regardless of the reason for the party being excluded, any party to the transaction included on either list will result in the loan being ineligible for delivery.
Companies or individuals involved in a mortgage transaction include a person with management or supervisory responsibilities within a seller's or servicer's company and any person or entity with critical influence on or substantive control over the origination or servicing of a mortgage or any function related to the origination or servicing of a mortgage – **for all loan applications dated on or after June 1, 2010.**

Cornerstone suggests that a copy of the GSA and LDP list be included in every file for delivery to CLD. To help you remember, this is a submission checklist item.

<u>Issue #3 – Borrower Credit – Undisclosed Liabilities</u>
FNMA Announcement 2010-01: Selling Guide Updates for the Loan Quality Initiative (*Corrected Lender Letter LL-2010-03)(03/02/10) **states**: The Selling Guide requires that every mortgage loan delivered to Fannie Mae be underwritten in order to establish that the borrower has the willingness and ability to repay a loan, including (but not limited to) an assessment of the borrowers debts and all liabilities that may affect the borrower's ability to fulfill the mortgage payment obligation.
The Selling Guide also directs the lender to review and evaluate the "inquiries" section of the borrower's credit report to determine if the borrower has received additional credit that is not reflected in the credit report or disclosed on the loan application. If additional credit was obtained, a verification of that debt must be provided and the borrower must be qualified with the monthly payment.
Fannie Mae is updating the Selling Guide to require lenders to determine that all debts of the borrower incurred or closed up to and concurrent with the closing of the subject mortgage are disclosed on the final loan application and included in the qualification for the subject mortgage loan. If Fannie Mae determines that any debts were not adequately disclosed on the application nor included in the debt-to-income ratio such that the loan would not have met Fannie Mae eligibility requirements, the mortgage loan will be subject to repurchase.
Lenders must have adequate internal controls and processes in place to evaluate borrower liabilities **– for all loan applications dated on or after June 1, 2010.**

Cornerstone suggests that any inquiries be verified through a credit reporting agency, and an updated credit report or letter from the borrower be provided, if necessary.

In addition to the three issues listed above, the FNMA Announcement 2010-01: Selling Guide Updates for the Loan Quality Initiative (*Corrected Lender Letter LL-2010-03)(03/02/10) details the following issues as related to LQI: Borrower Identify Verification, DU "Potential Red Flag" Messages, Property Unit Number, Calculation of the LTV Ratio. A complete version of the LQI announcement can be found at the following link:
https://www.efanniemae.com/sf/guides/ssg/2010annlenltr.jsp?from=hp – scroll down to Announcement dated 3/2/10.

It is extremely important that you review all internal policies and procedures, as they relate to the Fannie Mae Loan Quality Initiative, and make changes as necessary. This will help to mitigate the likelihood of audits, and therefore minimize repurchase risk.

Please let me or Joanne Posen know 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.

As always, your business is greatly appreciated!