



TO: Correspondent Lenders
FROM: Angela Breidenbach, Operations Manager
DATE: March 14, 2012
RE: **LENDER PAID MORTGAGE INSURANCE (LPMI) vs UP FRONT MORTGAGE INSURANCE
OCCUPANCY AFFIDAVIT
TRUST DOCUMENTATION**

LENDER PAID MORTGAGE INSURANCE (LPMI) vs UP FRONT MORTGAGE INSURANCE

Lender Paid Mortgage Insurance (LPMI) is a program allowed by most MI companies, in which the lender prices the loan in such a way that the premium earned pays for mortgage insurance on behalf of the borrower. Essentially, the borrower pays for the mortgage insurance through an increased interest rate, but some lenders use this as a way of lowering closing costs to the borrower. Unfortunately, there are two major problems with LPMI. The first is that the mortgage insurance can never be cancelled. The second is that there are significant consequences in the event that a loan with LPMI is incorrectly disclosed. Therefore, due to the risks and inflexibility for the customer inherent with this type of mortgage insurance, **Cornerstone will not purchase loans with LPMI.**

However, there is a way to effectively achieve the same result, as LPMI, without limiting your borrowers or putting yourselves at repurchase risk. By using borrower paid up front MI, and giving a lender credit, you can lower your customer's closing costs and avoid the problems associated with LPMI. If you choose to use this option, you **MUST:**

1. Be sure to order Up Front mortgage insurance. If the MI cert shows LPMI, Cornerstone will be unable to purchase.
2. Mortgage Insurance **MUST** be disclosed on the GFE.
3. Mortgage Insurance must be shown as a borrower paid cost in section 900 of the HUD (not a POC).
4. There must be a lender credit, in the same amount as the borrower cost, in section 200 of the HUD.

This policy is effective immediately. A "No LPMI allowed" clause will be added to the Overlays section of the correspondent web-site in the next 30 days.

OCCUPANCY AFFIDAVITS

Lately, we have seen an upswing in the number of loans that have a blanket disclosure that includes an occupancy statement. Although the disclosure is acceptable, it does not take the place of a sworn Occupancy Affidavit.

Therefore, effective with all loans delivered for purchase, on or after April 2, 2012, a complete signed and notarized Occupancy Affidavit will be required.

We are attaching a copy of an example form for your convenience. This will also be posted in the Forms section of the correspondent web-site. If you are currently using a different version of an Occupancy Affidavit, Cornerstone will continue to allow.

TRUST DOCUMENTATION

Effective immediately, Cornerstone will require an opinion letter, from a qualified attorney or paralegal, stating that terms of Trust Agreements meet all FNMA/FHLMC requirements for those loans closed in the name of a Trust.

A copy of this letter must also be included in the Collateral Package that goes to the warehouse. A revised version of the checklist is being attached for your convenience, and will be posted to the correspondent web-site under the Forms section.

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).

As always, your business is greatly appreciated!