The Risk Advisory will be issued quarterly providing information on the Top 5 Post-Fund Early Payment Default (EPD) Defects issued by Ditech, Frequently Asked Questions, an Underwriting Spotlight and a Did You Know section to provide useful underwriting guidance for various topics.

**TOP 5 POST-FUND MATERIAL DEFECTS**

- **Missing Gift Documentation**
  - Provide proof gift funds were received from an acceptable source, which includes an executed gift letter, evidence of the donor’s ability to provide the funds (generally the donor’s bank statement), including verification of donor account large deposits. Document the transfer and receipt of the gift funds.

- **Missing Bank Statements**
  - Review AUS findings to ensure compliance with the required number of bank statements (two month’s versus one month’s statements)
  - Review bank statement ending date to validate the statement is within the document expiration date

- **Verbal Verification of Employment**
  - Validate the borrower(s) salaried and/or self-employment position on every loan for every borrower within the prescribed timeframe for the product, prior to the note date

- **Inaccurate Income Calculation**
  - Use the income calculation tools on the Ditech website and in the Client Guide for income calculation for self-employed income and commission, bonus and/or overtime income to reduce income calculation errors
  - Review the AUS findings for compliance with income documentation requirements (e.g., paystub, W-2s, etc.)

- **Inconsistent Appraisal Documentation**
  - Review the appraisal report for the following:
    - Adequate comparable selection to support value and marketability
    - Condition of the property
    - Completion certificate for new construction or completion of repairs

**FOLLOWING THESE TIPS WILL REDUCE POST-FUND MATERIAL DEFECTS**
Consult the Client Guide, Product Matrices, and all other reference material on our website businesslending.ditech.com for complete guideline.

Contact your sales director or client services with any questions you have regarding this Newsletter.
877-700-4622

On the Horizon…..

Top 5 FHA Frequently Asked Questions

When gift funds are paid directly to the settlement agent at closing, is it necessary to verify the donor funds are from an acceptable source?

- Yes. Regardless of when the gift funds are transferred to the borrower, documentation must be provided to reasonably determine that the gift funds are not being provided by an unacceptable source.

Do judgments and liens have to be paid off prior to or at closing?

- Judgments and liens must be paid off unless all of the following are met:
  - The borrower has a payment arrangement with the creditor
  - There is a subordination agreement for any liens on title
  - The borrower has made timely payments for at least 3 months

Is a principal curtailment permitted?

- Yes. The maximum amount of the curtailment cannot exceed the lesser of $2,500 or 2% of the original loan amount for the subject loan.

Are child support & alimony payments included in the borrower’s DTI ratio?

- The monthly alimony obligation may be deducted from the borrower’s gross monthly income if the borrower does not qualify with the payment included in the DTI ratio
- Child support payments must be included in the DTI ratio

Does a non-borrowing spouse need to be checked against CAIVRS?

- No
The existence of an individual red flag may not be problematic but may warrant additional scrutiny and review.

**Occupancy Red Flags**

Occupancy is one area that requires close scrutiny for red flags that may indicate the borrower(s) is misrepresenting the occupancy of the subject property.

Reviewing the application and supporting documentation for red flags is a critical component to underwriting.

Review the application and loan file documentation for occupancy red flags:

1. Loan is an owner-occupied refinance but the applicant does not live in the subject property
2. Applicant is buying an investment property or second home, but does not own a current residence
3. Applicant is downsizing to smaller or less expensive home, but is retaining previous residence as “rental”
4. A significant or unrealistic commute distance from subject property to employment exists (owner-occupied transactions)
5. Loan is owner-occupied refinance but address(es) on documentation does not match the subject property address

**Occupancy Spotlight**

The stated occupancy must make sense and be supported by the loan documentation. An occupancy or motivation letter may be necessary to provide clarification of any inconsistencies in the loan documentation. *Things to consider.....*

- An owner occupied property is one that the borrower occupies for the majority of the year and where the borrower currently resides. One possible exception to this rule is when a borrower is financing a property for an elderly parent or disabled/handicapped child (Fannie Mae only)
- An investment property is a property that is occupied by someone other than the borrower. The property cannot be considered a second home if the borrower stays at the subject property when visiting a relative/friend. This is an investment property (even if rental is not received or being used to qualify).
- When the subject property is owner occupied, the borrower’s mailing address is typically the subject property. Any discrepancies must be satisfactorily explained.
- Does the insurance declarations page identify the occupancy of investment and/or include renter’s insurance coverage?
- If a purchase, is there anything in the sales contract indicating that the property may be rented?
- Is the stated second home located near the borrower’s primary residence?
Did you know that USDA Guaranteed Home Loans involve a two-tier qualification process?

The first tier qualification is to determine if the subject property is located in a USDA-designated rural geographic area and if the total annual Adjusted Household Income (best-case projection of income for the next 12 months) is less than the USDA-determined county household income limit. The operational definition for Household Size is the number of applicants and their dependents plus the number of other individuals who will be living in the subject property. The other household individuals could include adult extended family members such as parents, grandparents and cousins who will live in the subject property but who are not on the mortgage application. Consequently, USDA loan underwriting does require execution of IRS Form 4506-T transcripts for all adult household members, even though they are not on the mortgage application, to validate that the total Adjusted Household Income meets the county-specific income limits. The second tier qualification is the standard ability-to-repay evaluation of the applicants that considers the credit and income profile of the applicants.

USDA unusual guidelines: USDA guidelines contain a number of unusual requirements. For example, any amount of cash assets that the applicants own, must be first evaluated for their potential to earn interest income (even if the amount is very small), before counting those assets as funds to close or PITI reserves. Another example is that an applicant’s credit score must be supported by at least two trade lines, open or closed that have at least 12 months payment history in order for the credit score to be valid. In situations where an applicant does not have the requisite number of trade lines, non-traditional credit can be used as a supplement to validate the credit score. All applicants must have the minimum required credit score however only one applicant must have a valid credit score as described above. Refer to the Underwriting Guide and Product Summaries for complete guidelines.

USDA loans are submitted to the Guaranteed Underwriting System (GUS), USDA’s AUS. Acceptance by GUS can streamline the amount of documentation that is needed for submissions to the state USDA office for approval prior to closing.