

Newrez Announcements



Announcement 2023-041 Quality Control and Diligence Reminders

April 19, 2023

Overview

Newrez LLC (Newrez) Approved Correspondent Clients: Newrez is sharing feedback regarding two important trends in post fund QC and diligence reviews. Newrez is providing additional detail on defects regarding undisclosed debt and borrower employment as of the note date.

Undisclosed Debt

The Correspondent Client is required to consider all debt of a borrower incurred up to and including the day of the Note.

Borrowers often incur new debt after the initial credit report is pulled but prior to the loan closing and may not disclose it to the lender. Almost half of new debt identified post fund are car loans with the balance being other installment loans and mortgages.

To help identify undisclosed debt and satisfy the requirements of section C102 AAA of the Correspondent Operations Guide, Newrez recommends the following best practices:

- Obtain a credit refresh report or use an undisclosed debt monitoring (UDM) service. Either should be obtained as close as possible to closing but at least within 10 days of the note date.

Credit Refresh Reports

- The best practice is to obtain a soft pull refresh credit report to establish if any NEW debt has been obtained since the original credit report was obtained. If obtaining a credit refresh report, any additional tradelines or higher payments that are being reported (revolving debt) must be considered. If the DTI falls outside of tolerance, including the

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higher payments, then AUS must be rerun.

- Provide an explanation for any new inquiries on the refreshed credit report. Consider a handwritten explanation from the borrower rather than obtaining a boiler plate form signed by the borrower without thinking about it.
- If additional debt has been obtained based on the inquiry, document the new debt, including payment amount, determine if the change in DTI is within tolerance and if not, the AUS must be rerun.
- FICO scores are not required for a credit refresh; if a new FICO score is provided, the new credit report must be run through AUS and retained in the file.

Undisclosed Debt Monitoring

- Include dates that identify the start and end dates and the results of the monitoring. The Undisclosed Debt Monitoring should continue to the note date.
- If, through the UDM process, additional tradelines are identified, the additional debt must be considered. If the DTI falls outside of tolerance, including the additional debt, then AUS must be rerun.
- Provide an explanation for any new inquiries on the refreshed credit report. Consider a handwritten explanation from the borrower rather than obtaining a boiler plate form signed by the borrower without thinking about it.
 - If additional debt has been obtained based on the inquiry, document the new debt, including payment amount, determine if the change in DTI is within tolerance and if not, the AUS must be rerun.
- Pull MERS to identify any new mortgages.
- Educate the borrower. At time of application, explain that any new debt incurred up to and including the day of the Note must be considered in qualifying and that the borrower is obligated to disclose any new debt. Consider touching base with the borrower again prior to closing to specifically confirm no new debt has been incurred.

Borrowers Not Employed at the Time of Closing

All borrowers whose income is used to qualify must be employed as of the Note date at the employer as shown on the 1003.

Equifax “The Work Number” is a third-party verification service that can be used to verify employment within 10 days of closing. Many employers may utilize The Work Number for employment verification services. When an employer reports to the work number, it is

encouraged and recommended that the employment verification is done through this service. In addition, if using The Work Number:

- When tied to Day 1 Certainty (D1C) through Desktop Underwriter, if the loan closes by the “close by date” shown on the DU feedback certificate, the lender receives rep and warrant relief around that borrower’s employment.
 - If the “close by date” has expired, obtain a new VVOE and rerun the AUS.
- If employer does not report to Equifax “TWN”, completing a verbal VOE as close to the note date as possible is recommended. Always obtain the employers number independent of the number listed on the application.

Newrez reminds all Correspondent Clients of the required reps and warrants for individual loans as outlined in the Correspondent Operations Guide Section C102 AAA, which in part includes the following:

- Correspondent Clients are required 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 it is determined 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 eligibility requirements, the mortgage loan will be ineligible.
- The Correspondent Client must verify employment for all borrowers whose income is used to qualify for the mortgage loan. The verbal VOE requirement is intended to help lenders mitigate risk by confirming, as late in the process as possible, that the borrower remains employed as originally disclosed on the loan application. Changes in the borrower’s employment status could have a significant impact and possibly render the loan ineligible.

Correspondent Clients must have adequate internal controls and processes in place to ensure these requirements have been met.

Questions

If you have any questions regarding any information in this announcement, please feel free to contact your regional sales manager or client manager.

[Newrezcorrespondent.com](https://www.Newrezcorrespondent.com)

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Client Development

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