

# Newrez Announcements



**Announcement 2024-057**

**Best Practices and Post Fund Quality Control Trends (Conforming Loans)**

**September 18, 2024**

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## **Overview**

Newrez LLC "Newrez" Approved Correspondent Clients; Newrez is sharing Best Practices for Loan File Delivery submissions as well as Post Fund Quality Control trends.

Newrez believes that by sharing this information with our Correspondent Clients, it can decrease deficiencies, increase the quality of the loans submitted for purchase, improve purchase turn-times and avoid potential repurchase requests.

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## **Best Practices- Loan File Delivery**

- All documents used to underwrite the loan and support the underwriting approval must be included in the purchase package submitted to Newrez.
  - Check your process with your Delivery team to ensure that your imaging platform is set up to deliver documents in all indexes and buckets that are used to underwrite the loan. Some common missing documents include
    - Condo documents used to warrant project
    - Appraisal Desk Reviews or Review Appraiser analysis
    - Underwriter comments regarding compensating factors or unusual circumstances
    - Trailing documents as required by your underwriter
    - Tax transcripts or fraud diligence documents
    - Other credit documents that may be stored in an index location that is not identified to be uploaded with investor delivery package

- If a suspend condition is added to a loan but the document was included in the original upload to Newrez, do not re-upload the document.
    - Reach out to your Client Manager for a resolution. This will help identify if there is a break on the Newrez side that requires attention.
  - An income worksheet is an invaluable tool for calculating qualifying income. In addition, to being an agency requirement, the income worksheet clearly identifies how the qualifying income was calculated. It can also help to analyze if the income is steady, increasing, or declining and the amount that is appropriate to use.
    - All Newrez Clients can access an income worksheet under Job Aids on the Newrez Correspondent website via <https://www.newrezcorrespondent.com>
    - or can utilize another valid income worksheet.
  - Comments play a key role in understanding the underwriter's rationale for approving a loan. Not every aspect of a file requires a comment but if something is unusual or complex, commentary can go a long way.
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## **Post Fund Quality Control Trends**

### **Variable Income**

Variable income shows fluctuating earnings per pay period and can include income such as overtime, commission, bonus and even an hourly employee whose hours vary. A 2-year history for each type of variable income is generally required but income that has been received for less than 2 years but at least 12 months may be considered if there are documented positive factors that reasonably justify the use of the shorter income history. Commentary to support the underwriting rationale must be included on the income worksheet. Recent deficiencies around variable income include:

- Not providing a breakdown of the different types of earnings and/or not explaining significant increases or decreases in the earnings.
- Averaging variable income over an insufficient period. For example, using an average based on only a few months YTD earnings and disregarding lower prior year's earnings.
- Averaging variable income over 2 years but not recognizing that the YTD earnings do not support the amount of income used to qualify (YTD declining).

- Not verifying the frequency of bonus income paid (monthly, quarterly, or annually). Without verification to show otherwise, worst case scenario of annually paid bonus would be used and the bonus income would be averaged over 12 or 24 months, depending on trending.

### **Occupancy Discrepancies**

Occupancy as a primary residence needs to make sense and be reasonable. It requires the client to step back and look at all the documentation in the file which will either support the occupancy or raise questions as to the validity of it. Some things to consider:

- Is the borrower retaining their current residence which is superior to that of the subject property?
- Does the borrower own other investment properties in the same location as the subject property?
- Is the subject property located in close proximity to the borrower's current residence which is being retained?
- Is the subject property located in close proximity to the borrower's employer?
- Is the subject property square footage/bedroom count sufficient to accommodate the borrower's needs?
- Does the borrower's credit report (or MERS) show an accumulation of real estate with the past 12 months which were also represented as primary residences?

Supporting the reasonableness of the occupancy can be one of the more challenging components of a loan file. In some instances, it may require a detailed letter of explanation from the borrower to better understand the motivation to occupy the subject property as their primary residence. It is the Client's responsibility to determine the occupancy as represented has been supported and makes sense. The file should include commentary as to how that determination was made.

### **Excessive Interested Party Contributions (IPC)**

IPCs towards closing costs and prepaids are limited to 2%, 3%, 6% or 9% based on occupancy and LTV. In addition, even if the IPC does not exceed the applicable percentage, the dollar amount can never be more than the actual costs. When underwriting the loan, review the AUS feedback certificate for any messaging that indicates the IPCs appear to be excessive. As an additional control, verify your closing instructions include a requirement that specifies the maximum percentage permitted and that the dollar amount cannot exceed

actual costs. Excessive IPCs can render a loan unsaleable as agency does not permit a principal curtailment to cure an excessive contribution.

### **Projects in Need of Critical Repairs**

Excluding agency approved projects, a lender must verify a project is not in need of critical repairs. The absence of any mention of a structural issue is not sufficient verification that none exists. A lender may need to review a combination of documents to make this determination, including but not limited to:

- A project questionnaire that includes specific questions around the structural soundness of the project
- HOA board meeting minutes
- Special assessments, both current and planned
- Engineer's report
- List of repairs provided by the HOA or management company and/or
- Other substantially similar documentation

An additional reminder that all documents used to warrant a project must be included in the package submitted to Newrez.

Newrez will continue to share best practices and Post Funds QC trends with the goal of improving the quality of the loan as well as the completeness of the loan file package submitted to Newrez.

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### **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.newrez.com/correspondent)

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## **Client Development**

We offer a comprehensive training curriculum on Newrez products and processes, to keep your staff informed of the latest developments in products, technology solutions, compliance issues and process improvements. Each of these programs is offered by our training and development staff on a monthly basis and is updated regularly to reflect recent changes in the industry. Visit our [training site](#).