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Sample

## Section 3 Requirements

Residential real estate loans require specialized borrower documentation and underwriting criteria to comply with laws and regulations. As a seller of residential mortgage loans, [Sample Client] must also comply with the various agency requirements published in their respective selling guides.

General requirements are defined below.

### 3.1 Mortgage Loan Originator Licensing

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[Sample Client] requires all employees performing mortgage loan originator (MLO) activities to obtain and annually maintain registration with the NMLSR system, as well as obtain and annually maintain state licensing, where required.

[Sample Client] permits certain MLOs who were previously registered or state-licensed for a certain period of time to act as a loan originator under Temporary Authority while applying for a state loan originator license in a particular state.

[Sample Client] does not permit MLOs who are dual employed as real estate agents to act in both capacities on the loan transaction.

Effective December 15, 2022, FHA released Mortgage Letter 2022-22 prohibiting individuals who have a direct impact on the mortgage approval decision from having multiple roles or sources of compensation from a single FHA-insured transaction while permitting all other individuals to have multiple compensated roles for services actually performed and permitted by HUD, provided that the FHA insured transaction complies with all applicable federal, state and local laws, rules, and requirements.

## 3.2 Borrower Eligibility Requirements

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[Sample Client] exercises due diligence in confirming each applicant's identity to determine borrower eligibility in compliance with the Department of Treasury's Office of Foreign Assets Control (OFAC) regulations and the US Patriot Act.

[Sample Client] requires the validation of each applicant's Social Security number with the Social Security Administration. Upon positive validation, [Sample Client] resolves any discrepancy prior to clearing a loan to close. If an applicant's Social Security number or other approved documentation cannot be validated per the requirements within these policies and procedures, the applicant is not an eligible borrower, and the loan is unable to close.

### 3.2.1 Borrower Taxpayer Identification

[Sample Client] requires the [borrower](#), [co-borrower](#), [non-occupant co-borrower](#), [non-borrowing spouse](#), and [separated borrower](#), as applicable, to provide a valid and verifiable Social Security number. Other forms of taxpayer identification are prohibited. Any discrepancies involving a borrower SSN must be resolved prior to approval to close.

The Social Security Administration has introduced a new service for validating Social Security numbers – the [electronic Consent Based Social Security Number Verification \(eCBSV\) Service](#). With consent from the individual, [Sample Client] may verify if an individual's Social Security number, name, and date of birth combination matches Social Security records. If [Sample Client] utilizes the eCBSV service to validate Social Security numbers, evidence of the validation must be retained in the loan file.

### 3.2.2 Non-US Citizen

An applicant who is lawfully residing in the US as a permanent or a non-permanent resident alien, is eligible for a mortgage on the same terms as a US citizen.

[Sample Client] requires the applicant to provide current acceptable documentation from the Bureau of Citizenship and Immigration Services (BCIS), formerly the Immigration and Naturalization Service (INS), within the Department of Homeland Security, evidencing the person's legal residency status in the US. Other forms of documentation are prohibited. Any discrepancies identified must be resolved prior to approval to close.

In addition to the title requirement above, Fannie Mae requires that any existing first mortgage being paid off through the transaction be at least 12 months old as measured from the note date of the existing loan to the note date of the new loan.

### 3.4.3 Texas Owner-Occupied Homestead Property

Article XVI, Section 50(a)(6) of the Texas Constitution applies to a loan made by an authorized lender in Texas that is secured by a borrower's principal dwelling or [homestead](#) and made for home equity purposes. A mortgage originated under this Section is referred to as a Texas Home Equity Loan, or Texas Section 50(a)(6) Loan.

#### 3.4.3.1 Texas Section 50(a)(6) Loan

The following two scenarios legally classify a mortgage as a Texas Section 50(a)(6) Loan:

- A new loan is originated for the purpose of taking equity out (Cash Out Refinance)
- An existing Texas Section 50(a)(6) first or second mortgage is paid off by a new 50(a)(6) first mortgage

A refinance of an 50(a)(6) must be identified as a 50(a)(6), unless an exception applies because all the following requirements are met:

- At least one year has passed since the filing date of the most recent 50(a)(6) loan.
- No additional money is being provided to the borrower other than to cover the cost of the refinance.
- The new loan does not exceed 80% fair market value of the property.
- An owner's affidavit acknowledging [Sample Client]'s compliance with constitutional requirements for the rate/term refinance is signed by the owner and the owners' spouse and recorded.

##### 3.4.3.1.1 Restriction

There may only be one outstanding 50(a)(6) loan on a property at any given time. Additionally, the 50(a)(6) loan may not be used to acquire the property or to finance construction.

### 3.6.2.2 Property Data Collector Independence Requirements

For a transaction involving [property data collection](#), [Sample Client] must ensure not only compliance with AIR, but also with appropriate agency property data collector independence requirements—[Fannie Mae PDCIR](#) or [Freddie Mac PDCIR](#)—which impose requirements for property data collectors similar to those for appraisers.

[Sample Client] is responsible for complying with agency PDCIR which set forth the following standards to safeguard the independence, objectivity, and impartiality of property data collectors and other [independent parties](#) to the valuation process:

- General requirements dictate that no person is permitted to influence the observation, reporting, result, or review of a property data collection through bribery, coercion, collusion, compensation, extortion, inducement, intimidation, or any other manner.
- Subsequent property data collection assignment requirements include the prohibition on ordering, obtaining, using, and paying for a subsequent property data collection with a mortgage financing transaction unless at least one of the following applies:
  - Indicators exist that the initial property data collection was inaccurate, not credible, or violated legal or professional standards related to nondiscrimination.

[Sample Client] must clearly and appropriately note such indicators in the mortgage loan file.

- A subsequent property data collection is done pursuant to written, pre-established bona fide pre- or post-funding review or quality control processes or underwriting guidelines.

[Sample Client] must adhere to a policy of selecting the most reliable results.

- Independent party engagement requirements include the following:
  - [Sample Client]’s sales and production functions must be separate from its property data collection functions and any agent or employee of [Sample Client] involved in [Sample Client]’s sales or production functions is prohibited from involvement in the operations of [Sample Client]’s property data collection functions.

If small size and limited staff prevent [Sample Client] from establishing absolute lines of independence between its property data collection process and its mortgage production process, [Sample Client]’s written policies must clearly demonstrate that [Sample Client] has prudent safeguards in place to isolate its property data collection process from influence or interference by its production process.

- [Restricted parties](#) are prohibited from performing any of the following functions:

## Section 4 Origination Compliance

### 4.1 Loan Application

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#### 4.1.1 Uniform Residential Loan Application

The [MLO](#) is responsible for completing the [Uniform Residential Loan Application](#) (URLA) FNMA Form 1003/FHLMC Form 65) for each [borrower](#) in residential lending credit inquiries. The MLO must ensure the URLA is complete, accurate, timely, and in accordance with agency, loan program, and [Sample Client]'s policies and guidelines.

The URLA records the following information:

- Borrower information, including personal information and details about current and previous employment and self-employment, and income
- Financial information about the borrower's assets such as bank accounts, retirement and other accounts, and liabilities such as credit cards, debts, leases, and other expenses
- Financial information about the borrower's real estate ownership
- Loan and property information, including other mortgages and/or rental income related to the subject property and gifts or grants for the loan
- Declarations by the borrower about the property, money for the loan, and the borrower's finances
- Acknowledgments and agreements executed by the borrower
- Demographic information about the borrower
- Loan originator information, including the MLO identification (NMLSR ID) number

Additional information not recorded on the URLA is recorded on URLA Addendum forms. This includes information about additional borrowers and the lender's loan.

#### 4.1.7 Rate Lock

At the time of application, the MLO, in consultation with the borrower, may lock the interest rate for the loan or may submit the loan to operations for processing in a floating status. [Sample Client] requires the MLO to lock the rate in accordance with internal pricing guidelines.

##### 4.1.7.1 Pricing Discretion

Pricing discretions are limited. Any pricing discretion must be approved by an authorized manager who is adequately trained in the management of fair lending compliance and risk. Pricing discretions must be supported by valid business justification and the loan file must be documented sufficiently to explain the basis for, and the specific circumstances of, each pricing discretion.

Pricing discretions include, but are not limited to, the following:

- Any discretionary reductions or increases in interest rate or points
- Discretionary lender credits or fee waivers
- Discretionary rate lock extensions, roll-downs, or similar adjustments
- The terms “concession,” “exception,” “credit,” “waiver,” “overage,” or “underage”

Pricing discretions exclude the correction of pricing errors/misquotes, Good Faith Estimate fee tolerance cures, and bona fide discount points.

## 4.2 Processing

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### 4.2.1 Application Review

The URLA must be as complete as possible, although not all fields are necessarily required. The completion of the fields is impacted by the nature of the transaction, the method used to take the loan application, and the number of borrowers.

It is important to know which fields must be completed and how the information in the fields of the URLA interact with each other. This information, when taken from the application and entered in the loan operating system (LOS), will affect the AUS feedback, the [underwriting](#) decision, and the closing document package.

As the processor validates information from the initial application, the internal LOS must be updated. An updated and corrected application may be generated for document retention and use.

The following information can serve as a checklist to review the URLA for completeness and accuracy. This checklist is not all-inclusive, and the processor must complete a thorough review of the loan file to ensure the accuracy of the application.

#### 4.2.1.1 Prior to Submitting to AUS

Before submitting the file to the AUS or generating a new credit report, the processor must review the following for accuracy:

- Borrower name
- Social Security number
- Current residence address

#### 4.2.1.2 Prior to Ordering Services

Before ordering services such as flood certification, title documents, or hazard insurance, the processor must review the following for accuracy:

- Subject property address
- All borrower information, including residence history and telephone number
- Employer information including work history, address, and contact information

#### 4.3.5.12.2 Appraisal Review

[Sample Client] must have comprehensive policies and procedures established for the review of the appraisal report to ensure the information is complete, accurate, and provides a credible analysis of the market value of the subject property.

[Sample Client] standards for the appraisal review and the reconsideration of value (ROV) process must be clearly defined in their Quality Control Plan.

[Sample Client] must implement appraisal review policies and procedures, to include the ROV process on or before the following dates:

- Fannie Mae and Freddie Mac: Loan applications dated on or after August 29, 2024
- FHA: Case numbers assigned on or after September 2, 2024

Within their appraisal review policies and procedures [Sample Client] must include training requirements for underwriters, or other personnel designated to review appraisals, to ensure the identification of appraisal deficiencies, to include prohibited discriminatory practices within the appraisal review process. Material deficiencies include but are not limited to the following:

- Failure to report readily observable defects that impact the health and safety of the occupants or the structural soundness of the house
- Reliance on outdated or non-comparable sales when more recent or comparable data is available as of the date of the appraisal
- Fraudulent statements or conclusions the appraiser had reason to know compromise the integrity and accuracy of the appraisal report
- Statements related to characteristics of a protected class unless fair housing laws permit consideration of the characteristic, such as age-restricted housing or housing with certain accessibility features

The review process and all communication with the appraiser must comply with all [federal regulations](#), Fannie Mae, Freddie Mac, and FHA appraiser independence requirements.

[Sample Client]'s policies and procedures must also include protocols for the following remediation of deficiencies, as applicable:

- Requesting a general correction, explanation, or substantiation from the appraiser
- Requesting a ROV
- Obtaining a second appraisal