



Mortgage Chat

Q4 2024

CrossCheckCompliance





Ask CrossCheck

Welcome to CrossCheck's *Mortgage Chat*, a Q&A Series. CrossCheck Compliance answers questions that arise as lenders originate, underwrite, and fund their residential mortgage products. These insights are intended to help clarify investor requirements regarding underwriting and quality assurance as well as provide best practices.

If you are grappling with a mortgage question, we invite you to send your query to [Ask CrossCheck](#). Our team of mortgage experts are ready to provide the guidance and support you need.

Corporate K-1s with Blank Distributions



The self-employment corporate K-1s show distributions as a blank field. Can the ordinary income still be used for qualifying income?



FNMA guidelines require the lender to confirm the business has sufficient liquidity to support the withdrawal of earnings to use ordinary income line 1 on the K-1.

If the K-1 reflects a documented, stable history of receiving cash distributions of income from the business consistent with the level of business income being used to qualify, then no further documentation of access to the income or adequate business liquidity is required. However, when the distributions are left blank the lender must document the business has adequate liquidity.

When business tax returns are provided, the lender may calculate the ratio using a generally accepted formula that measures business liquidity.



Source: <https://selling-guide.fanniemae.com/sel/b3-3.3-07/income-or-loss-reported-irs-form-1065-or-irs-form-1120s-schedule-k-1>

Recent Significant Defect Trends

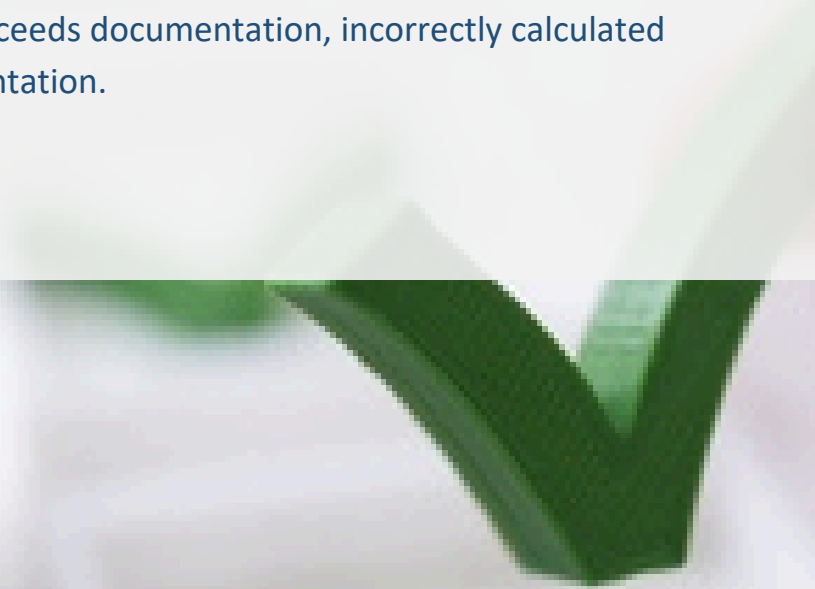


What are some of the recent significant defect trends in mortgage underwriting?



According to Fannie Mae, the most common findings for Q4 2023 randomly sampled loans centered around property appraisals, primarily in reference to comparable sales. The findings include inadequate comparable adjustments, failure to adjust comparables, inappropriate comparables due to location, inaccurately reported features of comparables, and inaccurately reported quality of construction or features of the subject property. Other common findings were incomplete or missing asset or net proceeds documentation, incorrectly calculated income including rental income, and missing omitted debts documentation.

Source: <https://singlefamily.fanniemae.com/media/39191/display>





Reconsideration of Value



How will the new agency guidelines impact the lender's responsibility to the borrower?



- The agencies have amended their guidelines for lenders to implement a process for the borrower to request a reconsideration of value (ROV).
- The lender must disclose the ROV process at the time of application and when the completed appraisal has been provided to the borrower. A review of the appraisal must be completed by the lender before the ROV process can begin.
- If the borrower requests an ROV, the lender must communicate with the appraiser identifying noted deficiencies in the original report, with a defined turn time for issues to be addressed.
- The appraiser must provide an updated appraisal report with a summary of their conclusions to the ROV request.
- It is the lender's responsibility to share the results with the borrower. An ROV is not allowed after the loan has closed. Documentation from this process must be retained as part of the loan file.

Implementation Dates:

- HUD – application date on or before August 29, 2024
- FNMA and FHLMC – application date on or before October 29, 2024

Sources: <https://www.hud.gov/sites/dfiles/OCHCO/documents/2024-07hsgml.pdf>
<https://selling-guide.fanniemae.com/sel/b4-1.3-12/appraisal-quality-matters>
<https://guide.freddiemac.com/app/guide/bulletin/2024-F>



Collateral Underwriter FNMA Tool



How can the Collateral Underwriter (CU) FNMA tool assist in mitigating appraisal risk?



- The purpose of CU is to identify appraisals that may have heightened risk associated with the subject property. It can also assist in research to manage this risk.
- By providing data to the system, CU evaluates the appraisal and provides a risk score from 1 to 5, with 1 being the lowest risk.
- The system also provides a report with risk factors identified from a higher risk score. These factors are grouped into four categories: overvaluation, undervaluation, eligibility, and quality.
- CU also allows its lender to utilize the large database in researching data discrepancies, comparable sales, and the appraiser's adjustments.
- The lender can use CU to validate or dismiss risks noted in the output report. FNMA does not require CU to be used by the lender, but it can provide an additional tool to mitigate risk related to the subject collateral.

Contact Us

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About the Experts

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Todd is a senior mortgage executive with over 25 years of mortgage lending experience. He has operational experience as both a portfolio investor and mortgage banker. The Loan Review practice led by Todd performs pre-funding quality assurance and post-closing quality control, as well as operational audits of origination and quality control departments, and repurchase, fraud, and servicing reviews. Due diligence services include rated securitizations, portfolio purchases/reviews, and mergers and acquisitions. The Litigation Support practice provides expert services including file review, reports, and testimony in relation to mortgage-backed securities, servicing, and repurchase matters.

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Tim is a mortgage executive with more than 20 years of mortgage lending experience. He has had operational experience with several mortgage bankers. As a compliance manager, he has been effective in minimizing regulatory liabilities through guideline development and risk management, in adherence to industry standards. Tim has worked closely with federal and state auditors to manage and improve the loan process through employee training and work flow changes.

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Andrew has been in the mortgage industry for over 20 years with varied experience in sales management, residential and consumer lending, as well as marketing, market analysis, marketing plans, and customer retention. At CrossCheck, Andrew has participated on a variety of engagements including review of loans in mortgage-backed securities subject to litigation, mortgage repurchase requests, fraud reviews, and quality control reviews. Prior to joining CrossCheck, Andrew has been an underwriter for money center banks, mortgage bankers, and mortgage insurance companies.

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Betsy is a mortgage executive with more than 15 years of mortgage lending experience. She has had operational experience with several mortgage bankers. As an underwriting manager, she has been effective in minimizing credit risk through guideline development and risk management, in adherence to industry standards.



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