

Credit and Loan Documentation

Overview

Loans underwritten utilizing DU or LPA on Conforming Fixed Rate products for first lien mortgages, may use credit and loan documentation requirements as per Fannie Mae and Freddie Mac guidelines. Please refer to the product guide in this manual for additional requirements when utilizing additional features such as LPMI, etc.

Standard documentation is the process of utilizing Fannie Mae/Freddie Mac verification forms to verify income, debts, and assets. Alternative documentation presents the opportunity to process loans more efficiently by eliminating the use of Fannie Mae/Freddie Mac verification forms. Both standard and alternate documentation are acceptable to Citizens.

Application

For standard and alternative documentation, the original **signed and dated** initial application (1003), as well as the typed final application reflecting verified data must be provided at time of submission to the underwriter, or when the loan is delivered for purchase. A typed final application that has been executed by borrower(s) must be delivered in the Closed Loan Delivery Package.

For purposes of HMDA reporting, it is imperative that all sections of the application be completed correctly. This includes the Government Monitoring Section for those applications taken in person.

Credit Requirements: Credit Reports and Credit Scores

Credit Reports

Either a current standard Residential Mortgage Credit Report(s) or a current Three Repository Merged Credit Report(s), which provides credit data for every borrower, is required. The initial credit report and all updates must be included in the loan package.

All conventional loan files must include for each borrower, a minimum of one credit bureau score in the form of either: Experian FICO Credit Score, TransUnion Empirica Score, or Equifax Beacon Score. Scores and/or reports must include the reason codes. (Correspondents must request reason codes when ordering credit scores.)

All borrower's Social Security Number(s) must be validated through Safescan, Hawk Alert, or other vendor. Any variations or alerts must be addressed and cleared to the satisfaction of Citizens.

The acceptable FICO scores from these repositories are:

- Equifax Beacon
- TransUnion FICO Risk Score
- Experian/Fair Isaac Risk Model

OFAC (Office of Foreign Asset Control)

Each borrower's name must be checked and verified, via third party, through the OFAC list for a "NO MATCH." Credit bureaus are set up to provide this service.

Determining the Usable Credit Bureau Score

The usable credit score is determined as follows:

When two repository scores are obtained for each borrower, the lowest score is the usable credit score. For example, with repository scores of 690/675 and 670/665, the usable credit score is 665. When three repository scores are obtained for each occupant borrower, the middle credit score for each occupant borrower is used to determine the usable credit score. The lowest of the middle scores is the usable credit score. For example, with repository scores of 720/715/700 and 715/710/700, the middle scores are 715 and 710, and the usable credit score is 710.

Government Loans

- All government loans must be documented in accordance with FHA/VA and Citizens guidelines with regard to credit and credit scores.
- FHA loans with seller funded down payment assistance of any kind are not eligible for purchase by Citizens. Refer to the [FHA product guides](#) found in this manual.
- See the [Government Lending](#) chapter of this manual for additional information on FHA and VA loans, including AUS requirements.

Conforming Loans - Credit Score Underwriting

All conventional conforming loans must be documented, underwritten, and approved in conformance with Citizens and agency guidelines regarding the selection and use of credit scores. Refer to product guidelines.

Non-Conforming Loans - Credit Score Criteria

For non-conforming loan amounts, agency guidelines regarding the use of credit scores are to be applied. Refer to the applicable non-conforming product guide of this manual for additional credit score requirements.

Eligible Rents

Eligible rents information is required even when rental income is not being used in the qualifying of the borrower(s). Please refer to the following for agency guidelines:

- **Freddie Mac:** 5306.1.f
- **Fannie Mae:** DU Findings state in the Property and Appraisal Information section under the references to the Form 1007; this paragraph states “If the borrower is being qualified with the entire payment, a comparable rent schedule is not required (although the lender must report the monthly rent at delivery).” Please refer to the Product Description for additional information.

Loan Documentation

All loans require an IRS form 4506-C for personal and business (as required) signed at closing, regardless of any other direction or information found on the Correspondent lending website.

Faxed credit documentation is a prevalent part of Citizens’ business. While Citizens supports this method of expediting information, the documents must meet the requirements for this medium to ensure the highest data integrity. Faxed documentation must include the name and telephone number of an individual who can verify the accuracy of the data provided. Verifications of employment, deposit, loan, mortgage, or rent must have all information in the header (Part I “To:”) completed including the name and full mailing address of the recipient, and should be signed by the sender in #3. This is required regardless of if the information was transferred via fax and not mailed.

As required, all applicable fields should be completed on the document and any revisions or changes must be made and initialed by the original verifier.

Documents provided by the borrower, such as tax returns, W-2s, check stubs, bank statements, etc. may ***NOT*** be transmitted from realtors, builders, sellers, or any other interested party. FHA, VA, and USDA loans with printed Web pages must exhibit the uniform resource locator (URL) address, the date and time the document was printed, and must clearly indicate that the account, pay information, etc. belongs to the borrower.

Any verification that has been transmitted by, from or through interested third parties or their equipment is not acceptable. This includes but may not be limited to real estate agents, builders, and sellers. This is a violation of Citizens and HUD requirements.

The fax must travel directly from the information source to the lender/originating company and bear a header clearly identifying the information source.

Tax Transcript Policy

Transcripts, if required should be dated prior to the loan closing date and must be analyzed by the Underwriter as part of the approval process in order to validate the borrower(s) income.

W-2 Wage Earners

Conventional:

- Processed transcripts are not required for borrowers with income derived solely from W-2 wages, and the income type does not require tax returns.
- NOTE: If borrower is relying on sources of income outside of their W2, transcripts would be required based on the type of income being used for qualification per the applicable current Citizens transcript policy.

FHA/VA:

Processed transcripts are not required for borrowers when the income used for the decision of the loan is made up exclusively of wage-earner income reported on a W-2, and/or fixed income reported on a 1099 (such as social security or VA benefits); and the income type does not require tax returns. Processed transcripts are not required for VA IRRRLs and FHA Non-Credit Qualifying Streamline Refinance transactions.

USDA:

Refer to USDA-RD Loan Product Description for requirements.

All other income types:

- Include One Year IRS Transcript (most recent year) when AUS feedback requires one year of income documentation, OR
- Include Two Years IRS Transcripts (most recent consecutive two years) when AUS feedback requires two years of income documentation, OR
- Tax transcripts are required for all corresponding years of income submitted in the file.
- If the federal tax returns are not yet due, the most recent available transcripts must be provided.
- USDA Loans: Refer to USDA-RD Loan Product Description.
- The above is not required for VA IRRRLs and FHA Non-Credit Qualifying Streamline Refinance transactions.

Business Tax Transcripts (Applies to Conventional Conforming and Government Loans):

Business tax transcripts are required at the Underwriter's discretion.

Note: The above is not required for VA IRRRLs and FHA Non-Credit Qualifying Streamline Refinance transactions.

Transcripts for Income Validation/DU Loans

In conjunction with Fannie Mae's Announcement [SEL 2016-08](#), Conventional Conforming loans receiving acceptable Income Validation messaging in the DU Findings will no longer require processed tax transcripts for income validation provided by a Fannie Mae designated vendor. All other loans that do not have the borrower's income validated by DU through a validation service will continue to require tax transcripts in accordance with current Citizens requirements.

Guidance for Analyzing Tax Transcripts

Processed tax transcripts must support income amounts submitted. Generally, if a borrower has not filed tax returns, the income provided by the borrower is not verifiable and, therefore, is not acceptable as "income" to be used to qualify the borrower for the loan application. In cases where transcripts are not yet available from the IRS, the transcript request will reflect "No Transcripts Available" for the period requested. If the tax returns are not yet due, lenders should request the most recent available transcripts. Citizens will require the transcripts for the previous year for all loans closing on and after **June 18, 2023**.

Tax transcripts obtained from the IRS must match the tax returns provided by the borrower. Amended returns must be provided when the returns and the transcripts do not match. If the amended returns cannot be provided, the loan is ineligible for approval

or purchase. Refer to Citizens Correspondent National Bulletin 2023-09 for Tax Transcript requirements. The following guidelines are for loans where tax transcripts are a requirement of the loan or by the Underwriter.

Documentation requirements when tax transcripts are not yet available

If AUS requires tax returns, the most recent year filed tax returns must be provided. If the borrower has filed their most recent year tax returns, but the transcripts are not available, the income may be still used to qualify provided year over year income increases are explained and documented as stable and credible. “Credible” means that the Underwriter has analyzed the nature and location of the borrower’s employment, including the borrower’s position in the company and the size of the company, and concluded that the income is realistic. If the tax transcripts for the most recent year are not yet available, the previous year’s tax transcripts are required. A returned transcript request will indicate “No record of return filed,” or “No record found,” for the period requested if the transcripts are not yet available from the IRS.

If the borrower’s qualifying income is not entirely derived from W-2 wages:

The income may be considered provided the income is stable and credible. The following must be obtained:

- Most recent year and previous year’s tax returns
- Previous year’s tax transcripts
- Most recent year tax transcript indicating “No record of return filed,” or “No record found.”

In addition to the income documentation for self-employed and W-2 borrowers, one of the following tax validation requirements must be completed when taxes have been filed, but the tax transcripts are not yet available:

- If the borrower is entitled to a refund, the refund amount must be verified by the IRS. The IRS can be contacted through <https://sa1.www4.irs.gov/irfof/lang/en/irfofgetstatus.jsp> or the IRS Teletax System by calling 1-800-829-4477, entering the social security number, filing status, and refund amount in whole dollars. For W-2 employees, when tax returns are not required, the borrower may provide a letter of explanation identifying the social security number, filing status, and refund amount. As long as the social security number, filing status, and refund amount matches the Teletax System, the feedback will verify the refund amount and provide the date the refund was processed.
- If the borrower owes taxes, the canceled check to the IRS must be provided and must match the amount due on the tax return. If tax returns are not required, then the canceled check will suffice.
- If the borrower filed an extension, proof of the extension filing, cancelled check to the IRS or credit card statement reflecting payment of anticipated tax obligations, and the previous year’s available tax transcripts are required. Extensions must have been filed no later than the IRS published due dates for tax returns. A 2022 “No Record of Return” is acceptable until eight (8) weeks after **October 15, 2023**. Regardless of the extension filing, the most current transcripts are still required.

Unfiled Federal Income Tax Returns

If tax returns have not been filed by the IRS published due date and an extension was not filed, the income provided by the borrower is not verifiable and the income will not be considered in the qualification of the borrower.

“Amended” tax returns must have been filed not less than sixty (60) days prior to the date of the purchase agreement or mortgage application, whichever is later. Amended tax returns must be posted by the IRS and available for validation if the amended tax return was filed sixty (60) days prior to the purchase agreement or mortgage application as stated above.

When comparing W-2s to IRS transcripts:

- Tax transcripts must be compared to the income documentation submitted
 - If the transcripts reflect lesser earnings than the documentation submitted, additional information may be required at the lender’s discretion
 - Any amended returns must be validated
 - If the transcript reflects additional income and/or losses which have not been documented, additional information may be required at the lender’s discretion
- Lenders should identify and address red flags or other discrepancies when comparing tax transcripts to other information in the loan file. Underwriters must use their discretion in requiring additional documentation to support any discrepancies identified, such as:
 - Undisclosed self-employment

- Address discrepancies that could indicate occupancy issues
- Dependents that are reflected on tax transcripts that are not disclosed
- Rental or other properties that are not disclosed

As always, Citizens reserves the right to request additional documentation or clarification as deemed necessary on any individual file.

Uniform Loan Delivery Dataset - ULDD

In anticipation of the loan data delivery format changes required by Fannie Mae and Freddie Mac, the following data elements are required on all loan files submitted to Citizens for Underwriting or Purchase. This is effective for all loan applications dated on or after January 12, 2012, and applies to Conventional, FHA, VA, and USDA loan products.