

Confusion over 4506-T and The Shutdown - Lenders & Aggregator's Various Policies

By: Rob Chrisman | Thu, Oct 3 2013, 9:54 AM

Craig B. sent this one in, discovered when doing some research on prepaid interest: "Prepaid interest is interest that you pay in advance. Prepaid interest can only occur at the closing of a loan. It is a one-time thing...What most people don't realize is that they are paying the lender for the previous month's interest (your Aug. 1 payment is applied to the interest owed for July). In other words, interest on a mortgage is *paid in-the-rears*. I could explain why but, that would take way to long and isn't necessary for this explanation." Here you go, [bottom of first paragraph](#).

As a reminder, because the CFPB is not subject to the appropriations process, it **remains open** during the federal government shutdown. For the same reason, the Federal Reserve, the FDIC, and the OCC also remain open. However, the FTC, which is subject to the appropriations process, is closed.

Regarding one of the apparent issues that lenders might have with the partial shutdown, I received this note: "Regarding the need for Tax transcripts...The requirement for the actual transcripts is an investor overlay, the **Agencies only require that the form to pull transcripts is in the file**, not that transcripts have been pulled, that said, most pull them as part of the QC process."

Wells Fargo's retail originators are "full speed ahead," and yesterday received, "Good morning everyone. I wanted to send you all a quick note on how we will be directing fulfillment when they are not able to obtain the 4506T transcript and the loan is scheduled to close. Credit Policy has come to the agreement that all we need in the file is the signed and dated form 4506T. Here is the process we would like fulfillment to follow: If your loan was selected for audit, is scheduled to close today, and a transcript is not in file then; 1. Fulfillment Underwriter should enter the following note: 'Loan is scheduled for closing today, due to the government shut-down we are unable to obtain the required 4506T transcript. There is a signed and dated form 4506T in file. Per credit policy, it is acceptable to close the loan without the transcript during the government shutdown.' 2. Fulfillment Underwriter should waive the condition and proceed to closing. No MLM Waiver is required." (This was sent by Kathy Smith, Retail Loss Prevention Lending Manager.)

Wells' correspondent clients received, "Wells Fargo Funding will not make any changes to documentation requirements in the event that a shutdown occurs and will continue to require documentation including, but not limited to: Tax Return Transcripts for all borrowers which must be included in the Loan file if income was used in the underwriting decision."

U.S. Bank Home Mortgage (USBHM), on the 4506T IRS Tax Transcript situation, wrote, "The IRS will not issue tax return transcripts (Form 4506 T). For the short term, we will temporarily cease the requirement for tax transcripts. However, we will require that the form 4506 T still be executed by the borrower(s) and contained in the file for future use. Please note: USBHM will re verify income with the IRS on all files delivered without tax transcripts due to the shutdown. This policy will be strictly adhered to. Direct Social Security Number Verification: Direct SSN verification may be not be available. If you are not able to establish SSN ownership, we will not be able to move forward with the transaction until this service is available. Rural Housing: USDA has ceased all but essential functions therefore USBHM will not purchase any USDA/ Guaranteed Rural Housing (Program #3001) loans without a guarantee and/or Conditional Commitment."

Stearns Lending broadcast, "The four (4) areas of our business that are most affected by this shutdown are: USDA Rural Development, obtaining IRS Transcripts, Social Security Number verification, and obtaining flood insurance. USDA Rural Development...Effective immediately, we will begin requiring copies of borrower's tax returns for all borrowers utilizing income to qualify. All Underwriters will begin conditioning loans for same. This will not apply to loan products that do not utilize income to qualify. The tax returns will enable us to identify self-employed borrowers; borrowers that claim 2106 expense and borrower's that own multiple properties. We will not require an executed 4506T prior to funding on W2 salaried borrowers to be included in the loan file. Stearns will verify all income with the IRS utilizing the executed 4506T and obtain the tax transcripts once the shutdown is over. We reserve the right to change this temporary policy at any time. The following loan types will require IRS transcripts in the file before we can close the loan: Jumbo Loans, loans where the borrower owns multiple properties, and self-employed borrowers. There will be no exceptions."

Fairway Independent Mortgage Corporation originators received, "Agencies that have been deemed essential with no likely impact on lending: Federal Reserve Banks - expect zero impact on our ability to send and receive wires through Fedwire, FNMA & FHLMC - MBS trading, security issuances, guaranty, loan purchasing and loan servicing functions should all remain intact. Desktop Underwriter, EarlyCheck, and Uniform Collateral Data Portal should all remain functional, GNMA - expect no impact to security issuances or MBS trading functionality, VA - announced in circular 26-13-20 that the VA Home Loan Program would function as normal in the event of shutdown..."

Fairway goes on to say, "Agencies where there can be minor impacts on production: Social Security Administration - the SSA has indicated

their staff will be reduced significantly and the service they offer to verify identity/social security numbers via the SSA-89 form, IRS - We will not have the ability to verify Tax Transcripts, however, we have made a Corporate decision to proceed without verifications on loans we are able to underwrite internally. And Agencies where there can be significant impacts on production: USDA-Effective immediately, USDA Rural Development office personnel is on furlough until further notice. GUS underwriting engine has been placed in inactive status. Pending mortgage loan transactions, where a USDA Conditional Commitment (RD 1980-18) has not been issued by the agency, will be unable to proceed to closing until the USDA office is operational and able to issue Conditional Commitments. How will this impact a USDA loan transaction? Fairway Independent Mortgage Corporation has delegated underwriting authority for USDA's Guaranteed Rural Housing loan program. A USDA loan transaction is underwritten by our in house underwriting staff for qualification purposes. Use of GUS, USDA's automated underwriting engine, is a part of the underwriting process. FIMC's underwriting staff will continue to review USDA mortgage loan transactions and will render a conditional decision based on being able to update the GUS underwriting engine and receipt of USDA Conditional Commitment RD 1980-18. Due to the government shutdown, the GUS system is inactive and USDA personnel are not able to facilitate the issuance of a Conditional Commitment. A USDA loan is unable to proceed to closing until the USDA offices are reinstated which will only happen upon Congressional resolve."

Stratis wrote, "While the IRS is not completing IRS Form 4506 results, most of our loans that we fund as Stratis Financial will not be impacted. The requirement is suspended with exception of non-owner occupied loans under the Fannie Mae multiple property program. As well with these same files approval and funding will not be slowed down waiting for Social Security number verification with the exception of files in which the Fannie Mae or Freddie Mac AUS results indicate some discrepancy. With the few files Stratis Financial brokers, approximately 10%, delays are likely to occur due to the lack of IRS and Social Security Administration verifications."

Nationstar correspondents received, "As referenced in the Correspondent Seller Guide, IRS Tax transcripts using the 4506-T are required to validate the income for all borrowers. Additionally, Nationstar correspondent requires the number of years of income documentation as indicated in the Income Section of the Sellers Guide. Due to the recent United States Federal government shutdown, federal employees across the United States may be affected, including employees who work for government contractors, vendors, and other businesses that rely on work from government agencies, or that offer goods and services to members of the government work force. To that end, effective immediately, Nationstar Correspondent will temporarily suspend the requirement for IRS Tax Transcripts using the 4506-T until further notice, unless the transcripts are a requirement by the agencies (i.e. AUS requirements). Nationstar Correspondent will continue to purchase closed loans submitted for purchase provided all borrowers have executed a 4506-T form at the time of application and again at loan closing. As a reminder, signed tax returns are still required for all self-employed income and income that requires tax returns by AUS findings. Borrowers are still required to sign IRS form 4506-T."

Affiliated reported, "The Following guideline changes regarding Validated Tax Transcripts only affect loans with properties located in the following states. If your property is in a state not listed below, Tax Transcripts are still required in order for Affiliated to purchase the loan. Acceptable States for Exception for Tax Transcripts: AR, AZ, CO, CT, DE, FL, GA, IA, ID, IN, KS, KY, LA, ME, MN, MO, MS, MT, NC, ND, NE, NM, NV, OH, OK, OR, PA, SC, SD, TN, TX, UT, VA, VT, WI, WV, WY. Since the U.S Government is not issuing Validated Tax Transcripts currently, until further notice Affiliated will take the following in lieu: DU/LP Eligible - If DU/LP does not require tax returns (typically when the borrower(s) are salaried and W-2'd) then AMC will accept the findings; however, in addition to any requirements by DU/LP, Affiliated will accept if the loan file also includes a signed and dated copy of the Borrowers' 2012 Federal Tax Returns (1040) along with all Schedules and Forms. In addition the loan file must include a fully executed 4506-T form signed and dated at closing. If DU/LP requires tax returns we will adhere to those findings, but the fully executed 4506-T form still must be provided as well. If the subject property is a Second Home or an Investment Property AND the borrower has more than four (4) financed properties (including the homestead) the loan is ineligible without validated Tax Returns. This is a direct FNMA ruling until further notice."

CitiBank correspondents were alerted, "Form 4506T: IRS transcripts are not available during the shutdown period. During the shutdown period the IRS Form 4506T should continue to be signed at application and closing, and the tax returns should be used to calculate income per current policy. During the government shutdown period tax transcripts are only required in accordance with the 5-10 financed properties policy when the loan is delivered to Citi (per Correspondent Manual Section 809.) Refer to Correspondent Manual Section 805 for current policy for Processing and Analyzing the 4506T. Social Security Number Validation: There is no change to current process. Loans that require Social Security number validation must include Social Security Administration (SSA) Form SSA-89 when delivered to Citi for purchase consideration. Refer to Correspondent Manual Section 807 for Social Security Number Validation Requirements."

In spite of all the posturing, jawboning, and energy spent around the shutdown, the markets are not doing much. Markets, and most individuals, don't like uncertainty. But in this case, no one is arguing that a government shutdown is going to improve the economy, which means that GDP or employment will not increase, which means that the FOMC will hold off tapering until the December meeting rather than at October's, and this buoyed fixed income securities. MBS prices were better by a shade, and the 10-yr closed at a yield of 2.63%.

Today, despite the government shutdown, Initial Jobless Claims will be released as usual at 8:30 a.m. with the median at +313k versus +305k previously. At 10 a.m. is ISM Services (Sep), which is projected lower to 57.4 from 58.6.

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