



# Correspondent Partner Announcement

"Striving to be the Best...not the biggest."

Issue Date 1/05/09

Effective Date Varies

CPA 2009-002

## Tax Transcripts, Appraisal Forms and Closing Protection Letter

### Purpose

- This communication announces the following:
- ✓ Revision to minimum appraisal form requirements
  - ✓ Revision of our 4506-T and Tax Transcript policy
  - ✓ Clarification regarding Closing Protection Letters

### Effective Date

See the individual topics for details.

### Minimum Appraisal Forms

- Effective with loans **locked on and after 01/07/09**, the following minimum appraisal form guidelines apply:
- ✓ MSI will no longer accept a Form 2070 or Form 2075; the Form 2055 is the **minimum** appraisal Form accepted by MSI.
  - ✓ The Seller Guide will be updated within 24 hours of the effective date.

### Background

- In this current economic environment, unfortunately we are seeing a sharp increase in fraudulent income documentation and other income schemes, including but not limited to:
- ✓ Using sophisticated software to create professional-looking income documentation.
  - ✓ Borrowers amending tax returns in an attempt to bypass 4506-T controls.

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## Tax Transcripts, Appraisal Forms and Closing Protection Letter, Continued

### 4506 Transcripts

**Effective immediately.** (MSI has already implemented this process.)

#### Closed Loans delivered for purchase:

MSI has instituted the policy of pulling tax transcripts and a *Record of Account* on all credit-qualifying loans received for loan purchase. This practice will help identify the activities that can be signs of suspicious activity.

- ✓ Receipt of the transcripts from the IRS will increase the funding time with MSI a minimum of 3 business days from receipt of the closed loan file.
- ✓ MSI will accept (and encourages) all Correspondents to expedite their funding by including a copy of the recent transcripts (and *Record of Account*) from the IRS in each loan file (as the first document in the credit package).
  - The *Record of Account* must be included and can be ordered by simply checking the box for *Record of Account* in [section 6](#) of the [Form 4506-T](#).
  - If the transcripts are included in the closed loan package, place the transcripts and the *Record of Account* **as the first documents in the Credit Package** to ensure that MSI sees the transcripts (and does not order).
- ✓ The transcripts should be requested and reviewed as part of the underwriting or the pre-closing quality control audit. (Independent verification of the validity of the income used to qualify is a lender's best protection against fraud.)

#### Loans submitted to MSI for underwriting:

All loans submitted to MSI for underwriting must include a copy of the Tax Transcripts and a *Record of Account* in the underwriting submission file.

- ✓ Loans submitted to underwriting without the tax transcript documentation will be suspended pending receipt.
- ✓ **Important Note:** For post-purchase quality control, it is still required that a 4506-T be dated and signed by the borrowers at loan closing.

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## Tax Transcripts, Appraisal Forms and Closing Protection Letter, Continued

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### Amended Tax Returns

MSI has the following policy regarding amended tax returns (which are identified in the *Record of Account*).

The IRS permits tax returns to be amended up to 3-years after the initial tax-filing year. If tax returns have been amended, the underwriter (and MSI) must be able to document the following, via the tax transcripts obtained using the 4506-T:

- ✓ The IRS has processed **and** accepted the amended tax returns; that information is contained in the transcripts.
- ✓ All outstanding liabilities and/or tax penalties have been paid; the transcripts show no outstanding money owed to the IRS.

**Additionally**, the underwriter must carefully review any increased income to insure its validity, and the loan file should contain:

- ✓ Documentation to support receipt of the income as well continuation of the income (reasonably for at least 2-years in the future).
- ✓ The underwriter in these cases must make every effort to prudently document the added income and the reasonable expectation of continuation.

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### Pre-Purchase Chapter

MSI will add our policy regarding the Tax Transcripts to our Pre-Purchase chapter.

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### Closing Protection Letters

Effective for loans closed by the Correspondent, MSI **strongly encourages** that each loan include a copy of the transaction-specific Closing Protection Letter (CPL) (or Insured Closing Letter) in each loan delivered for purchase.

MSI has revised the Seller Guide to be clearer that while we do not require a transaction-specific CPL in **each** loan file, we do strongly encourage each Correspondent to have such a letter. The following quote from an industry risk document outlines the reason for encouraging this letter.

[“A lender who wants the title insurer to be responsible for the agent's acts in connection with escrow closing activities and services must separately contract with the title insurer for such additional protection by obtaining an "Insured Closing Letter" or "Closing Protection Letter".](#)

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### Seller guide

The updated Seller Guide chapters will be posted no later than January 7, 2009.

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### Questions

Please contact your Correspondent Account Executive with any questions.

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