

Planet Home Lending Top Defect Trends – February 2025

At Planet Home Lending, we continuously monitor loan quality to ensure alignment with agency guidelines and reduce audit findings. This month, we are spotlighting critical defect trends related to **income verification**, **rental income**, **and non-U.S. citizen borrower eligibility** to help improve loan submissions and minimize underwriting deficiencies.

Action Required:

Share this update with your Operations team to ensure compliance with these requirements. By proactively addressing these defects, we can reduce findings, mitigate risk, and improve loan quality.

Please take the time to read Fannie Mae's latest issue of *Quality Insider*: <u>https://singlefamily.fanniemae.com/media/41506/display</u>

1. Variable Income

Income used to qualify the borrower is often **not supported by documentation in the file or incorrectly calculated**.

♦ Guidelines Reminder:

- All income calculated using an averaging method must be evaluated based on:
 - History of receipt: Two years of variable income is recommended. A minimum of 12-24 months may be considered with strong supporting factors.
 - Frequency of payment: Lenders must verify whether income is paid weekly, biweekly, monthly, quarterly, or annually to ensure accurate calculation.

Reference: Fannie Mae Selling Guide: <u>B3-3.1-01</u>, General Income Information

2. Rental Income

Rental income must be properly documented and calculated to meet agency standards.

♦ Guidelines Reminder:

If a borrower has a **history of renting** the subject or another property, rental income is generally reported on:

- IRS Form 1040, Schedule E (borrower's personal tax returns) OR
- **IRS Form 8825** (Rental Real Estate Income and Expenses for Partnerships or S Corporations).

However, when tax returns do not accurately reflect the **ongoing rental income** or **no rental history exists**, a **fully executed current lease agreement** may be used in the following scenarios:

✓ **Purchase Transactions:** If an existing lease on the property transfers to the borrower.

✓ Refinance Transactions:

- If the borrower purchased the rental property after their last tax return filing.
- If the property experienced significant rental interruptions (e.g., major renovations affected rental income).

✓ Converting a Primary Residence to a Rental Property: If rental income is used for qualifying, the property must have been placed in service in the current calendar year.

Common Errors Identified in Audits:

• Fraud Report Alerts for undisclosed REOs not addressed.

 \bigcirc Important Note: Rental payments on leases must be reflected in U.S. dollars and cannot be in virtual currency.

Reference: Fannie Mae Selling Guide: <u>B3-3.1-08, Rental Income</u>

3. Non-U.S. Citizen Borrower Eligibility

Loans submitted with missing or incorrect documentation for non-U.S. citizen borrowers.

♦ Guidelines Reminder:

Permanent Resident Aliens:

Permanent resident alien borrowers must hold an unexpired "Green Card" issued by the U.S. Citizenship and Immigration Services (USCIS). A copy of both the front and back of the card is required.

• Non-Permanent Resident Aliens must have:

Non-permanent resident aliens are temporary residents who are eligible to live/work in the United States for a specific period of time. Acceptable documentation of their work authorization is:

- An unexpired Employment Authorization Document (EAD) by the USCIS (including C-33 EAD/DACA), or
- An unexpired visa. Eligible types are E-1, G series, H series, or TN.

If the authorization for temporary residency will expire within one year of closing and a prior history of residency status renewals exists, continuation may be assumed. If there are no prior renewals, the likelihood the authorization will be renewed must be determined based on information received from the USCIS.

Reference: PHL Seller Guide – Non-U.S. Citizen Borrower Eligibility

☆ Common Missing Documents:

Income Documentation:

- WVOE, paystubs, or W2s (as required by AUS findings).
- Business or Personal Tax Returns (when required by the IRS).
- Tax returns (when borrower works for family or is in a non-arm's length transaction).
- K-1s (for self-employed borrowers).

Rental Income & REO Documentation:

- Lease Agreement, Tax Returns, or Form 1007/1025 (to support rental income).
- Tax, Insurance, HOA, or Mortgage Statement (to correctly calculate PITI for other REOs).

Borrower Eligibility Documentation:

- Copy of front/back of Green Card (permanent resident ID).
- Employment Authorization Document (EAD) or Visa documentation (if applicable).
- Evidence of renewal history (if residency expires within one year of the Note date).

Liability Documentation:

• Current monthly payment/balance documentation (used on the 1003/AUS).

Asset Documentation:

- Source of Large Deposit).
- Clearance of Earnest Money funds.

 \bigcirc Pro Tip: Before submission, ensure all documents are current, signed, and complete to reduce the risk of findings.