



Letters of Explanation Guidance

This guidance refers to Letters of Explanation that should be provided for all USDA, FHA and VA loans when submitted to Underwriting.

Letters of Explanation or LOX's are needed to document a variety of information. The Letters should be relevant, informative and stay on topic.

The standard file will need LOX's for the following:

- ◆ **Derogatory Credit** – see sheet on LOX for Derogatory Credit
- ◆ **Large Deposits** – always needed when sourcing a large deposit from bank statements
- ◆ **100% Access Letter** – needed on all jointly held accounts the borrower holds with another person who is not on the loan
- ◆ **Rent Free Letter** – needed when the application indicates that the borrower neither rents nor owns. The Rent Free Letter must indicate the address he is currently residing at and confirm that the borrower does not pay rent. The LOX must be signed by the owner of the residence they are residing at.

There are other times when an LOX helps the underwriter to understand the file better. Such cases may include:

- ◆ Gap in employment
- ◆ Non-sufficient funds or overdraft on bank statements
- ◆ Child Support
- ◆ Employment history

Letters of Explanation are seen as a valuable tool in assisting the underwriter to understand the files details. Summing the file up with a Note to the Underwriter will help her assess exactly what conditions are needed or not needed.