

## INTRODUCTION

This User Guide is designed to assist lenders using the Federal Housing Administration's (FHA) *Technology Open To Approved Lenders* (TOTAL) Mortgage Scorecard deployed in conjunction with various automated underwriting systems (AUS). FHA's TOTAL Mortgage Scorecard evaluates the overall creditworthiness of the applicants based on a number of credit variables and, when combined with the functionalities of the AUS, indicates a recommended level of underwriting and documentation to determine a loan's eligibility for insurance by FHA. Taken together, TOTAL and the AUS either conclude that the borrowers' credit and capacity for repayment of the mortgage are acceptable or will refer the loan application to a Direct Endorsement (DE) underwriter for further consideration and review. It is FHA's policy that no borrower be denied a FHA-insured mortgage solely on the basis of a risk assessment generated by the TOTAL mortgage scorecard.

The mortgage credit portion of loan applications that receive an accept or approve recommendation (competing AUSs may use either term) need not be reviewed by a DE underwriter, and neither the mortgage credit analysis worksheet nor the DE Approval (HUD-92900-A, page 3) need indicate the individual underwriter's Computerized Homes Underwriting Management System (CHUMS) identification number. Instead, these documents will show the identification number assigned by FHA for its TOTAL Mortgage Scorecard and provide feedback to the lender. A DE underwriter must underwrite the appraisal according to standard FHA requirements regardless of the mortgage credit risk score determined by the scorecard.

Each AUS using FHA's Mortgage Scorecard produces a document that provides feedback to the lender. The feedback document upon which the lender makes its credit decision (typically, the result from the last scoring event) must be included in the binder submitted to FHA for insurance purposes even if the loan application is referred to a DE underwriter for manual underwriting. It is to be placed on the right-hand side of the endorsement binder, top sheets.

Regardless of the risk assessment provided, the lender remains accountable for compliance with FHA eligibility requirements, as well as for any credit, capacity, and documentation requirements not covered in this user guide. A registered DE underwriter must fully underwrite those applications where the AUS refers the loan application to an underwriter for review and comply with the underwriting requirements described in Handbook HUD 4155.1 REV-5, Mortgage Credit Analysis, and applicable mortgage letters and other policy directives.

Chapter 1 of this User Guide describes the process for submitting loans, the programs and property types eligible for risk assessment by FHA's Mortgage Scorecard, and data integrity issues. Chapter 2 describes underwriting issues and contrasts the documentation requirements between loans rated as accept/approve and those rated as refer, and details system overrides and manual downgrades. Chapter 3 briefly describes mortgage endorsement procedures.

## **Summary of Credit Policy Revisions and Documentation Reductions**

As described in greater detail in Chapter 2 in this guide, borrowers *may* be eligible for some or all of the reduced documentation and credit policy revisions in the following categories, depending on the risk class of the mortgage. Most of the credit policy revisions to the underwriting requirements of the mortgage credit analysis handbook and documentation reductions are available only on loans scored as accept or approve.

For ease of reading, we have chosen to use “lender” in lieu of “mortgagee” throughout this user guide. However, lender is to be interpreted as a FHA-approved mortgagee as described in 24 CFR § 202.10.

## CHAPTER 1

### LOAN SUBMISSION REQUIREMENTS

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The Loan Origination System (LOS) being used, as well as the AUS vendor or platform, will determine the manner in which data are entered into the AUS, including the field names, which may vary across systems. The instructions below are designed to provide lenders with basic information on FHA standards and definitions.

Please note that although all of the following products and programs are eligible for risk assessment using FHA's TOTAL Mortgage Scorecard, it is possible that not all are supported by the AUS. Mortgage lenders will need to check the AUS vendor's user guide for details. The AUS's proprietary user guide will provide the requirements for data input specific to that AUS.

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#### **Property and Program Eligibility**

To obtain a credit risk assessment from FHA's TOTAL Mortgage Scorecard, the loan must meet the following FHA eligibility criteria:

- **Loan Purpose**
    - Purchase Money Mortgage
    - Construction-to-Permanent Mortgages
    - Regular Refinance with Credit Qualifying
    - Cash-Out Refinances up to 85 percent of the appraised value
    - Streamline Refinance (both credit qualifying and non-credit qualifying, provided sufficient data is entered and verified to obtain a risk analysis)
    - Credit Qualifying Assumptions
  
  - **FHA Insurance Product**
    - 203(b)---Standard FHA product for detached dwellings
    - 203(h)---Mortgages for Disaster Victims
    - 234(c)---Unit Mortgages in Condominium Projects
    - 203(k)---Rehabilitation Mortgage Insurance
    - 251---Adjustable Rate Mortgages (ARMs) on single family Detached and Condominium Units
    - Energy Efficient Mortgages (EEMs) (see instructions under "Income and PITI Information," below)
    - Section 247---Hawaiian Home Land mortgages
  
  - **Property Types**
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- Single family dwellings of 1- to 4-living units [Note: 3- and 4-unit properties have additional underwriting requirements as described in Handbook HUD 4155.1 REV-5 which may or may not be supported by the AUS]
- Manufactured homes meeting FHA’s property requirements for Title II mortgage insurance
- Units in Low- and High-Rise Condominium Projects [Note: Project must be FHA approved or individual unit must be eligible using “spot condo” processing]
- **Plan Type**
  - Fixed Rate Mortgages
  - Adjustable Rate Mortgages, including 1-year ARMs and FHA’s hybrid ARMs of 3-, 5-, 7-, and 10-years

### **Loan Application Information and Definitions**

The Uniform Residential Loan Application (URLA) captures most of the information needed to obtain a risk assessment from an AUS, and a completed URLA is required for all FHA insured mortgages. The following guidance is to ensure that information entered into the LOS/AUS meets FHA eligibility criteria. Income, assets, debts, and other credit variables entered into the AUS to obtain a risk assessment evaluation using FHA’s TOTAL Mortgage Scorecard must meet FHA’s *eligibility* for that loan application element.

#### *Type of Mortgage and Terms of Loan*

Section I of the URLA captures data on the Type of Mortgage and Terms of the Loan, including interest rate, etc. The interest rate at which the loan will close is to be entered in the AUS for qualifying purposes; any increase requires a resubmission. Borrowers using 1-year ARMs are to be qualified at an interest rate one percentage point above the initial rate if the loan-to-value equals or exceeds 95 percent. FHA’s 3-year, 5-year, 7-year, and 10-year ARMs are to be underwritten at the loan’s initial interest rate.

#### *Property Information/Section II*

This captures information on the property and purpose of the loan. Because the maximum insured mortgage is a function of location and the number of units, accurately enter the property county and property state as listed in the AUS vendor’s Maximum Mortgage Limit Table (if provided by the AUS vendor).

#### *Borrower Information/Section III*

Must include a two-year residency history for each borrower (except for streamline refinances of FHA-insured mortgages).

#### *Employment Information/Section IV*

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Must include a two-year employment history for each borrower (except for streamline refinances of FHA-insured mortgages).

### *Income and Principal, Interest, Taxes and Insurance (PITI) Information/Section V*

All income entered into the AUS for risk assessment purposes must meet FHA's requirements for qualifying income (as explained in Handbook HUD4155.1 REV-5 and applicable mortgagee letters). The lender is responsible for ascertaining that the income used in qualifying the applicant meets FHA's criteria for inclusion in the qualifying ratios.

PITI consists of the items listed below (as well as any other real estate owned):

- Principal and Interest
- Real Estate Taxes (if proposed construction, base estimate on property being completed and valued/reassessed by the taxing authority)
- Hazard Insurance Premiums
- Monthly FHA Mortgage Insurance Premiums
- Flood Insurance
- Ground Rent
- Homeowner's Association Dues/Condominium Fees
- Other property related special assessments
- Subordinate Financing payments scheduled to begin within three years of loan closing

If the mortgage being underwritten is a one-year ARM with a loan-to-value (LTV) ratio equal to or greater than 95 percent, calculate the Principal and Interest using a rate one percentage point above the loan's initial interest rate. FHA's 3-, 5-, 7-, and 10-year ARMs are to be underwritten at the loan's initial interest rate.

If the mortgage being underwritten is an Energy Efficient Mortgage (EEM), and the AUS does not separately accommodate such mortgages, use the following instructions for underwriting these loans. If the lender obtains an "accept" or "approve" on a mortgage loan application prior to adding the energy efficient improvements, FHA will recognize the risk rating from the AUS and permit the increased mortgage payments without re-underwriting or re-scoring *provided* that the lender's DE underwriter certifies that he or she has reviewed the calculations associated with the energy efficient improvements, and found the mortgage and the property to be in compliance with FHA's underwriting instructions. This language must appear either in the remarks section of the mortgage credit analysis worksheet or on a separate document in the case binder.

### *Assets/Section VI*

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Asset documentation must comply with FHA requirements. All asset information entered into the AUS must be verifiable and meet FHA requirements for eligibility.

Verified Reserves After Closing are not a requirement for FHA underwriting (except on 3- and 4-unit properties), but are nevertheless considered in the mortgage evaluation. If not already calculated by the LOS, this information should be entered in the appropriate field for the automated underwriting database. See Chapter 2 of this User Guide for information on what assets may be considered as Reserves for qualifying purposes.

### *Liabilities Section VI*

Include the following amounts, if applicable, in Total Debt:

All debts listed on credit report that are not excludable under the conditions described below.

Alimony, child support, separate maintenance agreements (Note: Because of the tax treatment of alimony, the lender may reduce the borrower's monthly gross income by the amount of the alimony payments rather than include it as a debt obligation under Total Debt. If this option is chosen, do not also include the alimony payment in the data field that calculates Total Debt.)

- Negative Rent on other real estate owned
- Mortgage Debt (PITI) on other real estate owned
- Installment debt (Note: Installment debts with fewer than ten payments remaining may be excluded from the ratio calculations. However, if the AUS indicates that manual underwriting is required, then the DE underwriter must determine that short-term debt will not negatively affect the borrower's ability to make mortgage payments during the early months following loan settlement. See Handbook HUD 4155.1 REV-5 for additional information.)
- Significant (greater than \$100 per month) debt payment not shown on the credit report and all debts disclosed by the borrower.
- Payment from new debt resulting from material inquiries on credit report within 90 days of application. *Material inquiries* result in obligations incurred by the mortgage borrowers and may include other mortgages, auto loans and leases, or other installment loans and must be considered in the underwriting analysis. Inquiries from department stores, credit bureaus, and insurance companies are not considered as "material."
- Those debts that must be considered in the qualifying ratios if the borrower resides in or the property is located in a community property state, per Handbook HUD 4155.1 REV-5.

### **Loan Resubmission Requirements**

The lender is responsible for the integrity of the data used to obtain the risk assessment, and for resubmitting the loan when material changes are discovered or otherwise occur during loan

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processing. The lender is required to resubmit the loan through the automated underwriting system for an updated evaluation under any of the conditions described below.

- Borrowers were either added to or deleted from the loan application. Those borrowers shown on the most recent submission into the AUS must be the same borrowers who sign the mortgage note/deed of trust.
- Borrower's income and/or cash assets/reserves decrease.
- There were changes to the sales price or terms and conditions of the mortgage.
- Any changes are discovered that would negatively affect the borrowers' ability to repay the mortgage.
- Information about the property valuation changes (e.g., the appraised value is determined to be less than the sales price).

## CHAPTER 2

### UNDERWRITING REQUIREMENTS

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The underwriting and documentation instructions contained throughout this chapter are designed only for lenders using FHA's TOTAL Mortgage Scorecard in conjunction with an AUS. For mortgage loans scored as "accept" or "approve," FHA has granted a number of credit policy revisions and documentation relief from the instructions in Handbook HUD 4155.1 REV-5 as described below. Lenders must still comply with outstanding eligibility requirements and ensure the integrity and accuracy of the data used to render a decision. Loan applications receiving a "refer" risk classification are remanded to a DE underwriter and FHA's credit policies as described in HUD Handbook 4155.1 REV-5 apply, subject to certain specific modifications as detailed below.

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#### **Credit and Capacity to Repay Evaluation**

FHA's Mortgage Scorecard evaluates the borrower's credit history, income, cash reserves, and other components of creditworthiness and either determines that the borrower is acceptable as a mortgage credit risk and may be processed with reduced documentation, or refers the loan application to a DE underwriter for his or her personal review and evaluation. This chapter describes how lenders may use FHA's TOTAL Mortgage Scorecard deployed through an approved AUS in evaluating the borrower's credit and capacity to repay the mortgage including:

- Adequacy of Income;
- Funds to Close and Cash Reserves; and
- Credit History

#### **Risk Classification and Related Responsibilities**

Lenders should also refer to the user guides developed by the AUS vendor. However, feedback messages provided by the AUS vendor do not supersede the written guidelines issued by FHA in this User Guide.

#### **"Accept/Approve"**

If the AUS using the TOTAL Mortgage Scorecard rates the mortgage loan application as an accept or approve, based on the analysis of the credit and capacity to repay and certain other loan characteristics, the loan is eligible for FHA's insurance endorsement provided:

- The data entered into the AUS are true, complete, properly documented, and accurate; and
  - The entire loan package meets all other FHA requirements (except for those
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specifically not required because the loan was evaluated by an AUS). FHA requires adherence to all eligibility rules and the documentation requirements described elsewhere in this User Guide and Handbook HUD 4155.1 REV-5. The DE underwriter need not use his or her personal CHUMS identification number on forms HUD-92900-WS, 92900-PUR, loan information summary sheet, or 92900-A and must substitute the CHUMS identifier provided as feedback by TOTAL.

### **“Approve/Ineligible” Recommendations**

The AUS vendor may also provide “approve/ineligible” recommendations. Loans receiving this recommendation have been determined to have met FHA’s Mortgage Scorecard threshold but do not meet certain FHA eligibility requirements. The vendor will provide detailed information advising why the loan did not meet FHA’s eligibility requirements. Typical reasons for an “approve/ineligible” recommendation include:

- Loan amount exceeds the FHA maximum;
- Property type submitted does not correspond to the Section of the Act selected in the AUS;
- Insufficient reserves on a 3- or 4-unit property; and
- Insufficient funds for closing.

Loans that receive a recommendation of “approve/ineligible” may still be eligible for FHA insurance. To achieve eligibility status, the lender must analyze the findings report and determine that the reason for the ineligibility is one that can be resolved in a manner complying with FHA underwriting requirements. The lender must document the circumstances or other reasons that were evaluated in making the decision to approve the loan in the remarks section of the mortgage credit analysis worksheet (MCAW). The lender is not required to re-underwrite the entire loan, but must address each reason the loan received an ineligible recommendation and document and explain why it is now eligible for FHA insurance. Loans that receive a recommendation of “approve/ineligible” will receive the benefit of all other accept or approve documentation and credit policy revisions. The CHUMS identifier issued by TOTAL (currently ZFHA) may be used as the underwriter on the MCAW for mortgages risk classified as “approve/ineligible.”

The lender may also need to correct the issue(s) that caused the loan to be ineligible and resubmit the loan to attempt to obtain an “accept/approve” recommendation such as when a mortgage amount exceeds statutory limits.

### **“Refer”**

The lender using the TOTAL Mortgage Scorecard must conduct a manual underwriting review according to FHA requirements for all loan applications that generate a “refer” rating. The DE underwriter must determine if the borrower is creditworthy in accordance with FHA standard credit policies and requirements. It is FHA policy that no borrower will be denied a FHA

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insured mortgage loan solely on the basis of a risk assessment generated by the TOTAL Mortgage Scorecard.

### **System Overrides and Manual Downgrades**

A system override and/or manual downgrade of an “accept/approve” to a “refer” classification may be required if a particular loan application variable is revealed during loan processing. Loan processors and underwriters must be aware of the variables detailed later in this User Guide that otherwise require an accept/approve mortgage loan application to be remanded to an underwriter for his or her personal review and decision.

### **Documentation Requirements**

All standard FHA documentation requirements must be met, with the exception of those described below which may allow for reduced documentation sets based upon the risk classification of the loan. The lender must also document any situation not addressed in this User Guide in accordance with the applicable HUD Handbook or Mortgagee Letter.

“Faxed” Documents—If income/employment, asset, or other documents including various disclosures are “faxed” to and from the lender, the documents must clearly identify the employer, depository/investment firm’s name, etc., and source of information. The lender is accountable for ascertaining the authenticity of the document by examining, among other things, the information included at the top or banner portion of the fax received by the lender. The document itself must also include a name and telephone number of the individual with the employer or financial institution that can verify the accuracy of the data.

Internet Downloads—Income/employment or asset documents downloaded from an Internet website must be placed in the case binder in paper form. The documents must clearly identify the employer or depository/investment firm’s name and source of information. The lender is accountable for ascertaining the authenticity of the document by examining the information included on any headers, footers, and the banner portion of the printouts of the downloaded web page(s). The printed web page(s) must also show its Uniform Resource Locator (URL) address and the date and time printed.

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### **Employment /Income**

Specific underwriting requirements for what constitutes acceptable types and sources of income, as well as stability of income requirements are described in Chapter 2 of Handbook HUD 4155.1 REV-5. The lender is responsible for documenting and verifying the accuracy of the amount of income being reported, and for determining if it can be considered as effective income in determining the payment-to-income and debt-to-income ratios. If any information regarding a borrower’s income or employment changes during loan processing, the lender must resubmit current, corrected information through the AUS to determine if the risk classification changes.

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Additional documentation may be required for borrowers who work for family-owned businesses, as per the mortgage credit handbook.

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### For loan applications rated as “Accept/Approve”, use the following to verify employment for employed borrowers:

- **Current Employment**---The lender must obtain the single most recent pay stub (showing year-to-date earnings of at least one month) **and** any one of the following to verify current employment:
  - Written Verification of Employment (VOE)
  - Verbal verification of employment (Lender or service provider must document individual verifying the employment.)
  - Electronic verification acceptable to FHA
- **Employment History**---The lender is required to verify the applicant’s employment history for the previous two years. However, direct verification is *not* required if *all* of the following conditions are met:
  - The current employer confirms a two-year employment history (this may include a paystub indicating a hiring date)
  - Only base pay is used to qualify (no overtime or bonuses)
  - The borrower signs form IRS 4506 or 8821 for the previous two tax years.

If the applicant has not been employed with the same employer for the previous two years and/or all conditions immediately above cannot be met, then the lender must obtain one of the following for the most recent two years to verify the applicant’s

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### For loan applications rated as “Refer”, use the following to verify employment for employed borrowers:

- **Current Employment**---The lender must obtain the single most recent pay stub (showing year-to-date earnings of at least one month) **and** any one of the following to verify current employment:
  - Written Verification of Employment (VOE)
  - Verbal verification of employment (Lender or service provider must document individual verifying the employment.)
  - Electronic verification acceptable to FHA
- **Employment History**---The lender is required to verify the applicant’s employment history for the previous two years. Obtain one of the following for the most recent two years to verify the applicant’s employment history:
  - W-2(s)
  - VOE(s)
  - Electronic verification acceptable to FHA

employment history:

- W-2(s)
- VOE(s)
- Electronic verification acceptable to FHA

### **Commissioned Individuals**

A commissioned applicant is defined as one who receives more than 25 percent of his or her annual income from commissions. For these individuals, obtain and analyze signed federal income tax returns, including all schedules, for the most recent two years and subtract unreimbursed business expenses in underwriting.

### **Self-Employed Borrowers**

FHA considers a borrower owning 25 percent or more of a business as being self-employed. The minimum length of self-employment that a borrower must exhibit to have that income considered stable and effective for qualifying is discussed in Handbook HUD 4155.1 REV-5. Unless the self-employed borrower's income information is obtained directly from the Internal Revenue Service (IRS), as a quality control measure, all other self-employed borrowers must sign form IRS 4506 or 8821 and lenders must routinely verify through IRS the income being reported for the mortgage application.

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#### **Use the following to verify the income for self-employed borrowers rated as "Accept/Approve" by TOTAL:**

- **Individual Tax Returns**---The lender must obtain signed individual federal tax returns, including all schedules, or income information directly from the IRS for the most recent two years and subtract unreimbursed business expenses in underwriting.
- **Business Tax Returns**---The lender must obtain signed federal business tax returns, with all applicable schedules, if the business is a corporation, an "S" corporation, or a partnership. Also obtain business income information directly from the IRS for the most recent two years for each business. However, for accepts/approves, no business tax returns are required if *all* of the following are met:

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#### **Use the following to verify the income for self-employed borrowers rated as "Refer" by TOTAL:**

- **Individual Tax Returns**---The lender must obtain signed individual federal tax returns, including all schedules, or income information directly from the IRS for the most recent two years and subtract unreimbursed business expenses in underwriting.
  - **Business Tax Returns**---The lender must obtain signed federal business tax returns, with all applicable schedules, if the business is a corporation, an "S" corporation, or a partnership. Also obtain business income information directly from the IRS for the most recent two years for each business.
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<ul style="list-style-type: none"> <li>• Individual federal income tax returns show increasing self-employed income over the past two years.</li> <li>• Funds to close are not coming from business accounts</li> <li>• The FHA insured mortgage is not a cash-out refinance</li> </ul> <ul style="list-style-type: none"> <li>• <b>Profit and Loss (P&amp;L) Statements and Balance Sheets</b>---These documents are not required on mortgages rated “accept/approve” by FHA’s Mortgage Scorecard <i>provided</i> that the income used in qualifying was based on the previous two years’ tax returns. However, if income used to qualify the borrower exceeds that of the two-year average based on tax returns, then either an audited P&amp;L statement or signed quarterly tax returns are to be used to support the greater income stream.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Profit and Loss (P&amp;L) Statements and Balance Sheets</b>---Obtain profit and loss and balance sheet or income information directly from the IRS if all of the following occur:             <ul style="list-style-type: none"> <li>• More than seven (7) months have elapsed since the business tax year’s ending date.</li> <li>• Income to the self-employed borrower from each individual business is greater than five (5) percent of his or her stable monthly income.</li> </ul> </li> <li>• <b>Business Credit Reports</b>---Obtain a business credit report on corporations and “S” corporations.</li> </ul>
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### **“Deminimus” Self-employed**

If a borrower receives less than five percent of his or her stable monthly income as a result of being self-employed, and the loan application receives an “accept/approve”, there is no need to obtain individual or business tax returns, nor is it necessary to obtain balance sheets or P&L statements. Verify the existence of the business through telephone listings, business cards, etc.

If a borrower receives less than five percent of his or her stable monthly income as a result of being self-employed, and the loan application receives a refer, there is no need to obtain individual or business tax returns, nor is it necessary to obtain balance sheets or P&L statements. Verify the existence of the business through telephone listings, business cards, etc.

### **Other Income Information**

**If the loan application is rated as**

**If the loan application is rated as “Refer”,**

**“Accept/Approve”, the lender must abide by the following if there are employment gaps or if alimony or child support are being used in qualifying:**

- **Employment Gaps**---Obtain an explanation for employment gaps of greater than **60** days if it occurred within the last two years.
- **Alimony and/or Child Support**---Obtain evidence of receipt using deposits on bank statements or canceled checks for the most recent three (3) months that support the amount used in qualifying. Provide evidence that the claimed income will continue for at least three years. Use the front and pertinent pages of the divorce decree/settlement agreement showing financial details.

**the lender must abide by the following if there are employment gaps or if alimony or child support are being used in qualifying:**

- **Employment Gaps**---Obtain an explanation for employment gaps of greater than **30** days in duration if it occurred within the last two years.
- **Alimony and/or Child Support**---Obtain evidence of receipt using deposits on bank statements or canceled checks for the most recent three (3) months that support the amount used in qualifying. Provide evidence that the claimed income will continue for at least three years. Use the front and pertinent pages of the divorce decree/settlement agreement showing financial details.

**Asset Information**

**If the loan application is rated as an “Accept/Approve”, document the borrower’s assets to close and cash reserves, if any, using the following:**

- **Depository Accounts**---If a Verification of Deposit (VOD) is not obtained, then provide a statement showing the previous month’s ending balance for the most recent month. If the previous month’s balance is not shown, then obtain statement(s) for the most recent two months to verify sufficient funds to close.
- **Cash Reserves**---Verify all cash reserves available after closing that are submitted to the AUS. Note that cash reserves after closing are not required on FHA mortgages (except when purchasing 3- or 4-unit properties) but are evaluated in determining the risk classification of the loan.

**If the loan application is rated as a “Refer”, document the borrower’s assets to close and cash reserves, if any, using the following:**

- **Depository Accounts**---If a Verification of Deposit (VOD) is not obtained, then provide a statement showing the previous month’s ending balance for the most recent two months. If the previous month’s balance is not shown, then obtain statement(s) for the most recent three months to verify sufficient funds to close.
- **Cash Reserves**---Verify all cash reserves available after closing that are submitted to the AUS. Note that cash reserves after closing are not required on FHA mortgages (except when purchasing 3- or 4-unit properties) but are evaluated in determining the risk classification of the loan.

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Cash reserves may include certain retirement accounts. To account for withdrawal penalties and taxes, only 60% of the vested amount of the account may be used. The lender must document the existence of the account with the most recent depository or brokerage account statement. In addition, evidence must be provided that the retirement account allows for withdrawals for conditions other than in connection with the borrower's employment termination, retirement, or death. If withdrawals can only be made under these circumstances, the retirement account may not be included as cash reserves. If any of these funds are also to be used for loan settlement, that amount must be subtracted from the amount included as cash reserves.

- **Gift Funds**---The borrower must list the name, address, telephone number, relationship to the homebuyer, and the dollar amount of the gift on the loan application or in a gift letter for each cash gift received. If sufficient funds required for closing are not already verified in the borrower's accounts, document the transfer of the gift funds to the homebuyer in accordance with instructions described in Handbook HUD 4155.1 REV-5. [Note: No form of secondary financing, with or without required payments, is to be shown as "gifts" in any AUS.]
- **Stock and/or Bond Accounts**—Obtain brokerage statement(s) for each account for the most recent two months. Evidence of liquidation is *not* required.

Cash reserves may include certain retirement accounts. To account for withdrawal penalties and taxes, only 60% of the vested amount of the account may be used. The lender must document the existence of the account with the most recent depository or brokerage account statement. In addition, evidence must be provided that the retirement account allows for withdrawals for conditions other than in connection with the borrower's employment termination, retirement, or death. If withdrawals can only be made under these circumstances, the retirement account may not be included as cash reserves. If any of these funds are also to be used for loan settlement, that amount must be subtracted from the amount included as cash reserves. Note: To be considered as a compensating factor when manually underwriting, there must be three months' worth of such reserves.

- **Gift Funds**---The borrower must list the name, address, telephone number, relationship to the homebuyer, and the dollar amount of the gift on the loan application or in a gift letter for each cash gift received. If sufficient funds required for closing are not already verified in the borrower's accounts, document the transfer of the gift funds to the homebuyer in accordance with instructions described in Handbook HUD 4155.1 REV-5. [Note: No form of secondary financing, with or without required payments, is to be shown as "gifts" in any AUS.]
- **Stock and/or Bond Accounts**—Obtain brokerage statement(s) for each account for the most recent three months. Evidence of liquidation is required if used for cash to close.
- **Retirement Accounts**---Obtain the most

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| <ul style="list-style-type: none"> <li>• <b>Retirement Accounts</b>---Obtain the most recent statements for each account to verify sufficient funds to close. Document the terms and conditions for withdrawal and/or borrowing and that the borrower is eligible for these withdrawals. Use only 60 percent of the amount in the account unless the borrower presents documentation supporting a greater amount after subtracting any taxes or penalties for early withdrawal. Evidence of liquidation is <i>not</i> required.</li> <li>• <b>Sale of Home</b>---Obtain a HUD-1 or equivalent closing statement. If the borrower is being transferred by his or her company under a guaranteed sales plan, obtain an executed buyout agreement and accompanying settlement statement indicating that the employer or relocation service takes responsibility for the outstanding mortgage debt.</li> <li>• <b>Sale of Assets</b>---If an asset other than real estate or exchange-traded securities is sold to accumulate funds to close the mortgage, obtain a bill of sale and evidence of proceeds, or document the existence, value, and buyer's intention to purchase. Evidence of liquidation is <i>not</i> required.</li> <li>• <b>Earnest Money and Other Large Deposits</b>---Obtain an explanation and documentation for recent large deposits in excess of 2 percent of the property's sales price, including the earnest money deposit. Also verify that any recent debts were not incurred to obtain part or all of the required cash investment on the property being purchased.</li> </ul> | <p>recent statements for each account to verify sufficient funds to close. Document the terms and conditions for withdrawal and/or borrowing and that the borrower is eligible for these withdrawals. Use only 60 percent of the amount in the account unless the borrower presents documentation supporting a greater amount after subtracting any taxes or penalties for early withdrawal. Evidence of liquidation is <i>not</i> required.</p> <ul style="list-style-type: none"> <li>• <b>Sale of Home</b>---Obtain a HUD-1 or equivalent closing statement. If the borrower is being transferred by his or her company under a guaranteed sales plan, obtain an executed buyout agreement and accompanying settlement statement indicating that the employer or relocation service takes responsibility for the outstanding mortgage debt.</li> <li>• <b>Sale of Assets</b>---If an asset other than real estate or exchange-traded securities is sold to accumulate funds to close the mortgage, obtain a bill of sale and evidence of liquidation.</li> <li>• <b>Earnest Money and Other Large Deposits</b>---Obtain an explanation and documentation for recent large deposits in excess of 2 percent of the property's sales price, including the earnest money deposit. Also verify that any recent debts were not incurred to obtain part or all of the required cash investment on the property being purchased.</li> </ul> |
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**Credit Report Processing and Reconciliation Information**

The lender is responsible for reviewing all credit reports for all borrowers. Lenders may choose



## FHA TOTAL Mortgage Scorecard User Guide

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to document each borrower's credit history by obtaining credit reports through the AUS vendor, or separately through an independent source, depending on the chosen AUS. The vendor will determine the options available to the lender, including use of in-file credit reports, merged credit reports, and Residential Mortgage Credit Reports (RMCRs).

In the event that derogatory or delinquent credit items are revealed during processing that are not reflected on the credit report and, thus, were **not** considered by the scorecard, downgrade to a *Refer* and manually underwrite the loan. Derogatory credit items that could conceivably not appear on the credit report and must result in a downgrade include but are not limited to:

- Bankruptcy, foreclosure, collection account, charge-off, tax lien, or judgment; and
- Any mortgage trade line including mortgage line-of-credit payments, during the most recent 12 months, consisting of:
  - 3 or more late payments of greater than 30 days, or
  - 1 or more late payments of 60 days plus 1 or more 30-day late payments, or
  - 1 payment greater than 90 days late.

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**Use the following to document the borrower's credit history for loans receiving an "Accept/Approve":**

- **Significant Inaccuracy/Undisclosed Debt**  
—When a debt or obligation (other than a mortgage) is revealed during the application process that was not listed on the loan application and/or credit report and was *not* considered by the AUS, the lender must:
  - Verify the actual monthly payment amount; and
  - Include the monthly payment amount and re-submit the loan if the liability is greater than \$100 per month. Direct verification of the debt is not required.
  - Determine that any funds borrowed were not/will not be used for the homebuyer's cash investment into the transaction.
- **Contingent Liability on Mortgage Debt--**  
If the credit report indicates a mortgage debt that has been assumed by an unrelated party, with or without a release of liability,

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**Use the following to document the borrower's credit history for loans receiving a "Refer":**

- **Significant Inaccuracy/Undisclosed Debt**  
—When a debt or obligation (other than a mortgage) is revealed during the application process that was not listed on the loan application and/or credit report and was *not* considered by the AUS, the lender must:
  - Verify the actual monthly payment amount; and
  - Include the monthly payment amount and manually underwrite the mortgage using standard qualifying criteria. Direct verification of the debt is not required.
  - Determine that any funds borrowed were not/will not be used for the homebuyer's cash investment into the transaction.
- **Contingent Liability on Mortgage Debt--**  
If the credit report indicates a mortgage debt that has been assumed by an unrelated party, with or without a release of liability,

or the title has been transferred because of divorce, lenders need not include the debt in the qualifying ratios. Obtain either a) a copy of the divorce decree ordering the other spouse to make payments or b) the assumption agreement and the deed showing transfer of title out of the borrower's name. There is no 12-month payment history requirement.

- **Mortgage Reference---** If a mortgage debt does not appear on the credit report, the credit report does not have a 12-month history, or if no rating is available, obtain the most recent 12-month history and include the payment in the qualifying ratios.
- **Rental Reference---**A separate rental reference is not required.
- **Credit Report Inquiries---**Include new debt payment resulting from material inquiries listed on the credit report in the debt ratios. Also determine that any recent debts were not incurred to obtain any part of the required cash investment on the property being purchased.
- **Derogatory Credit Information and Judgments---**Obtain evidence of payoff for any outstanding judgments shown on the credit report. No other explanation is required for adverse credit or other derogatory information.

or the title has been transferred because of divorce, lenders need not include the debt in the qualifying ratios *provided* that evidence is obtained that the mortgage has been current during the previous 12 months or that the loan-to-value ratio is at or below 75%. Also obtain either a) a copy of the divorce decree ordering the other spouse to make payments or b) the assumption agreement and the deed showing transfer of title out of the borrower's name. Further instructions are in Handbook HUD 4155.1 REV-5.

- **Mortgage Reference---**If a mortgage debt does not appear on the credit report, the credit report does not have a 12-month history, or if no rating is available, obtain the most recent 12-month history and include the payment in the qualifying ratios.
- **Rental Reference---**If a rental reference does not appear on the credit report, obtain the most recent 12-month history.
- **Credit Report Inquiries---**Include new debt payment resulting from material inquiries listed on the credit report in the debt ratios. Also determine that any recent debts were not incurred to obtain any part of the required cash investment on the property being purchased.
- **Derogatory Credit Information and Judgments---**Obtain evidence of payoff for any outstanding judgments shown on the credit report. Obtain an explanation for major indications of derogatory credit, such as judgments and collections, as well as any minor indications within the past two years.

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## **SYSTEM OVERRIDES AND MANUAL DOWNGRADES**

A system override occurs when a loan application variable triggers a requirement (a “review rule”) that an underwriter review the loan file. A manual downgrade becomes necessary if additional information, not considered in the AUS decision, affects the overall insurability or eligibility of a mortgage otherwise rated as an accept or approve. Both system overrides and manual downgrades may be triggered by inaccuracies in credit reporting, by eligibility issues, and for other reasons including the unlikely failure of the TOTAL Mortgage Scorecard or AUS to recognize a derogatory credit variable. Unless specifically permitted to continue to use the “accept/approve” documentation class, such as following a favorable resolution of a credit issue due to an error in reporting, the lender must document as a “refer” risk class and is accountable for the credit and ratio warranties on these loans. If the AUS the lender is using does not provide for a system override for any of the conditions shown below, then the lender is required to manually downgrade the loan to a “refer” under any of the following conditions:

### **FEDERAL ELIGIBILITY**

Certain individuals may not be eligible for federal benefits due to delinquent federally-related obligations or actions taken by a federal government agency. If a borrower is discovered to be ineligible due to any of the conditions described below, the lender must downgrade the loan to a Refer status (if the AUS does not do so) and determine what actions—if any—may be taken to allow the borrower to qualify for the mortgage. If it is determined that the information originally relied on to determine a borrower to be ineligible was erroneous, the lender may document the file accordingly and if the loan application is rated as an “accept/approve,” use the credit waivers and reduced documentation accordingly.

#### ***Delinquent Federal Debt***

If the borrower, as revealed by public records, credit information, or HUD’s Credit Alert Interactive Voice Response System (CAIVRS), is presently delinquent on any federal debt, the borrower is not eligible for a mortgage insured by FHA. See Chapter 2 of Handbook HUD 4155.1 REV-5 for details.

#### **CAIVRS**

If CAIVRS indicates a federal delinquency, default, claim payment, or lien, the borrower is not eligible for additional federally related credit. Exceptions and error resolution are discussed in Chapter 2 of Handbook HUD 4155.1 REV-5. A check of CAIVRS is not required for streamline refinances.

We do not require a "clear" CAIVRS access number as a condition for mortgage endorsement, but the lender must document and justify its approval based on the exceptions described in the

handbook or otherwise provide documentation proving erroneous or outdated information residing in CAIVRS.

### ***Suspended and Debarred Individuals***

A borrower suspended, debarred, or otherwise excluded from participation in the Department's programs is not eligible for a FHA-insured mortgage. Both the General Services Administration (GSA) "List of Parties Excluded from Federal Procurement and Non-Procurement Programs" and HUD's Limited Denial of Participation (LDP) list are available through the FHA Connection.

## **CREDIT ISSUES**

### ***Previous mortgage foreclosure***

A borrower whose previous residence or other real property was foreclosed on or has given a deed-in-lieu of foreclosure within the previous three years is generally not eligible for an insured mortgage. If the lender chooses to continue processing and manually underwrite the loan application, it must refer to Handbook HUD 4155.1 REV-5 for exceptions and additional underwriting requirements.

Provided that the foreclosure was completed at least three years previously *and* the risk-classification from TOTAL is an "accept/approve," no further documentation regarding the foreclosure is required.

### ***Bankruptcy***

Both Chapter 7 liquidations and Chapter 13 bankruptcies discharged within two years of loan application require a referral to an underwriter and compliance with the instructions regarding bankruptcies described in Handbook HUD 4155.1 REV-5. A borrower whose bankruptcy has been discharged less than one year is not eligible for FHA mortgage insurance (except on non-credit qualifying streamline refinances).

Provided that the bankruptcy was discharged at least two years previously *and* the risk-classification from TOTAL is an "accept/approve," no further documentation regarding the bankruptcy is required.

### ***Late Mortgage Payments***

If any mortgage trade line including mortgage line-of-credit payments, during the most recent 12 months, shows:

- 3 or more late payments of greater than 30 days; or
- 1 or more late payments of 60 days plus one or more 30-day late payments; or
- 1 payment greater than 90 days late,

the loan application must be referred to a DE underwriter for review.

***Disputed Accounts***

If the credit report reveals that the borrower is disputing any credit accounts or public records, the mortgage application must be referred to a DE underwriter for review.

## CHAPTER 3

### **ENDORSEMENT PROCEDURES**

The loan is eligible for FHA insurance endorsement if:

- The TOTAL Mortgage Scorecard rated the mortgage loan application as an “accept” or “approve”, or if a “refer”, the DE Underwriter manually underwrote and approved the mortgage application; and
- The data entered into the AUS are true, complete, and accurate; and
- The entire loan package meets all other FHA requirements (except for those specifically not required because the loan was evaluated by TOTAL).

Loan-level data in the AUS used to render a risk assessment must match that data also entered into CHUMS (if the lender has manually updated any of the fields used by TOTAL for scoring the mortgage). If data entered by the lender into CHUMS indicate a degradation of loan quality when compared with the AUS data used to obtain the risk assessment, FHA reserves the right to return the case binder to the lender unendorsed until such time as the lender corrects its data. FHA may also score the mortgage using FHA’s TOTAL Mortgage Scorecard emulator. If the results of this re-scoring indicate that an “accept/approve” has been downgraded to a “refer” risk classification, the case binder may be returned for traditional manual underwriting.

It is imperative that lenders make certain that they enter the FHA case number into their LOS or AUS as soon as it is known. This will ensure a more efficient endorsement process. Mortgage loans that FHA’s system of records cannot identify as having been risk-assessed by FHA’s TOTAL Mortgage Scorecard will not receive the benefits of documentation reduction and credit policy revisions and may be returned to the lender for manual underwriting.

#### **Scorecard Version Issues**

From time to time, FHA will revise the TOTAL Mortgage Scorecard. FHA will announce the date that the new version of the scorecard will be available and from that date forward all new, first-time risk assessments will be based on the new scorecard. Loan applications that were scored under the previous version of the scorecard will be “grandfathered” and eligible for re-scoring under the earlier version for 90 days. Once that period has lapsed, all re-scores will be subject to the new version of the TOTAL Mortgage Scorecard. Lenders and vendors are also advised that the version number must be passed back to the TOTAL Mortgage Scorecard to allow for this grandfathering feature to operate.

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**Underwriter Responsibilities**

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**For mortgages receiving an “Accept/Approve”:**

- The DE underwriter is *not* required to personally review the credit and/or qualifying ratios;
- The DE underwriter is *not* required to certify that the borrower’s credit and capacity meets standard FHA requirements;
- The TOTAL Mortgage Scorecard CHUMS number is to be recorded on form HUD-92900-A and the mortgage credit analysis worksheet; and
- The DE underwriter must underwrite the appraisal according to standard FHA requirements.

**For mortgages receiving a “Refer”**

- The DE underwriter is required to underwrite both credit and capacity according to standard FHA guidelines;
- The DE underwriter is required to certify that the borrower’s credit and capacity meet standard FHA requirements;
- The CHUMS number of the DE underwriter is to be recorded on form HUD-92900-A and the mortgage credit analysis worksheet;
- The DE underwriter must underwrite the appraisal according to standard FHA requirements.