

YOUR HOSTS



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**You're
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DISCLAIMER

- This training is for Mortgage Professional Use Only
- Information contained within this training is subject to change



FHA MANUAL UNDERWRITING TRAINING FOR BROKERS

AGENDA

Reasons for Manual UW

Reasons to be Downgraded

Mortgage Payment History

Disputed Derogatory Credit Accounts

Acceptable Payment History

Documenting Compensating Factors

Documentation Required for Manual UW

Pitfalls

How to Become an Approved Broker

Q&A

Reasons for Manual UW

- 1) Received AUS Refer, or
- 2) Downgraded to a manual underwrite due to circumstances within the loan



AUTOMATED UNDERWRITING
SYSTEM

Reasons to be Downgraded

- Information is provided that cannot be evaluated by TOTAL Scorecard which affects the overall insurability of the loan
- Borrower has \$1,000 or more collectively in Disputed Derogatory Credit Accounts
- The date on the Bankruptcy documents is within 2 years of the case assignment
- Borrower has a Pre-Foreclosure Sale (Short Sale) or Deed-in-Lieu within 3 years of the case assignment
- The Mortgage Payment history requires a downgrade
- The Borrower has undisclosed mortgage debt with delinquent payments
- Business income shows greater than 20% decline over the analysis period

UW must fully analyze and document the loan file with their approval.

Extenuating Circumstances

Acceptable Reasons

- Serious Illness
- Death of a Wage Earner
- Identity Theft
- Loss of job

Unacceptable Reasons

- Divorce
- Quitting a job
- Inability to sell a property due to job transfer or relocation

PLEASE NOTE: There are no cases of always or never. FHA is looking for evidence that these reasons were for something that was beyond the borrower's control.

Mortgage Payment History

Purchase and No Cash-Out Refinance

Any mortgage tradeline, including any HELOCs will not qualify for a manual underwrite if it has the any of the following:

- 3 x 30
- 1 x 60 plus 1 x 30
- 1 x 90, or
- The Borrower has made less than 3 consecutive monthly payments since completion of a mortgage forbearance plan.

Mortgage Payment History

Cash-Out Refinance

If any mortgage tradeline reflects:

- Current delinquency,
- Any delinquency within 12 months of the case number assignment date, or
- The Borrower has made less than 12 consecutive monthly payments since completion of a mortgage forbearance plan.

Mortgage Payment History

Undisclosed Mortgage Debt

If any mortgage tradeline reflects:

- Current delinquency,
- Any delinquency within 12 months, or
- More than two 30-day late payments within 24 months of the case number assignment date.

Mortgage Payment History

Modifications & Forbearance

- Must use the payment history in accordance with the agreement for the time period indicated.
- For modifications, the Borrower must have made at least 6 payments under the modification agreement to be eligible for a no cash-out refinance.
- When a forbearance is present on a property the Borrower wishes to retain, the forbearance plan must be terminated at or prior to closing.

Disputed Derogatory Credit Accounts

A mortgage must be downgraded to a refer if the credit indicates the borrower has \$1000 or more collectively in disputed derogatory accounts

What a Disputed Derogatory Account is?

- Disputed Charge Offs
- Disputed Collection Accounts
- Disputed Accounts with LATE PAYMENTS in the last 24 months

What is *NOT* considered a Disputed Derogatory Account?

- Disputed Accounts on a Non-Borrowing Spouses Credit Report
- NON-DEROGATORY Disputed Accounts

If a borrower undergoing a manual underwrite has collection accounts or charge off accounts on their credit, they must provide a letter of explanation for EACH collection and charge off account and provide documentation to support their letter.

Acceptable Payment History

Acceptable Payment History

	12 Months	24 Months
Housing and Installment	0 x 30	2 x 30
Revolving	2 x 60, 0 x 90	---

Acceptable Payment History

Lowest Minimum Decision Credit Score	Maximum Qualifying Ratios (%)	Acceptable Compensating Factors
500-579 or No Credit Score	31/43	Not applicable. Borrowers with Minimum Decision Credit Scores below 580, or with no credit score may not exceed 31/43 ratios.
580 and above	31/43	No compensating factors required.
580 and above	37/47	One of the following: <ul style="list-style-type: none"> • verified and documented cash Reserves; • minimal increase in housing payment; or • residual income.
580 and above	40/40	No discretionary debt.
580 and above	40/50	Two of the following: <ul style="list-style-type: none"> • verified and documented cash Reserves; • minimal increase in housing payment; • significant additional income not reflected in Effective Income; and/or • residual income.

Documenting Compensating Factors

Verified & Documented Cash Reserves

- On 1–2-unit properties – Reserves must be equal to or exceed 3 total monthly Mortgage Payments (PITIA)
- On 3-4-unit properties – Reserves must be equal to or exceed 6 total monthly Mortgage Payments

Reserves are calculated as the Borrower's total assets **MINUS**:

- Amount required for cash to close
- Gift Funds
- Borrowed Funds, and
- Cash received at closing in a cash-out refinance transaction or incidental cash received at closing in the mortgage transaction.

Documenting Compensating Factors

Minimal Increase in Housing Payment

- The new total monthly Mortgage Payment does not exceed the current total monthly housing payment by more than \$100 or 5%, whichever is less,
- No mortgage lates in the last 12 months

If the Borrower has no current housing payment, this cannot be used as a compensating factor.

Documenting Compensating Factors

Residual Income

- Monthly net income available for family support after deducting all borrower's shelter expenses, debts, and payroll tax deductions from monthly gross income.
- Must be equal to the applicable amounts for household size and geographic region found on the Table of Residual Incomes by Region found in the Dept of Veterans Affairs Lenders Handbook.

Documenting Compensating Factors

Significant Additional Income

- Additional income can be from Overtime, Bonus, Part-Time or Seasonal Employment that is not reflected in Effective Income.
- The borrower must have received this income for at least one year and it must be likely to continue.
- The income must be able to reduce the qualifying ratios to no more than 37/47.

Income from Non-Borrowing Spouses or Other Individuals may not be used for this compensating factor.

Only applicable on loans that exceed 37/47 debt to income.

Documentation Required for Manual UW

- Verification of Rent or Mortgage, or
- Living Rent free letter from the property owner where the borrower is currently living
- If the DTI is at or below 31/43
 - 1 month of reserves is required on all 1–2-unit properties
 - 3 months of reserves is required on all 3–4-unit properties
- If the DTI exceeds 31/43, additional reserves will be required as a compensating factor

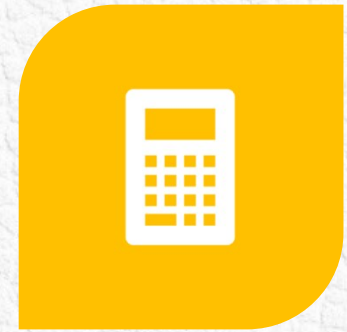
Pitfalls



**ATTEMPTING TO USE
GIFT FUNDS FOR
RESERVES**



**NOT FULLY
UNDERSTANDING
WHAT MINIMAL
INCREASE IN HOUSING
PAYMENT MEANS**



**NOT PROPERLY
CALCULATING RESIDUAL
INCOME**

Pitfalls



**ATTEMPTING TO USE
GIFT FUNDS FOR
RESERVES**

Gift Funds Example

Total Amount of Assets	\$30,000
Amount of Required Reserves	\$6,000
\$2,000 PITIA x 3 Months	
Amount of Required Cash to Close	- \$15,000
Amount of Gift Funds	- \$10,000
Amount of Reserves Available	\$5,000
Short by \$1,000	

How to get around this?

Donor sends funds to escrow, reduce cash to close by amount donor sent	\$15,000 - \$10,000
Amount of Required Cash to Close	- \$5,000
Amount of Reserves Available	\$25,000

Pitfalls

Calculating Increase in Housing Payment

Current Total Monthly Payment

P&I Payment - \$1000

Taxes - \$50

Insurance - \$75

HOA Dues - \$100

Total \$1225

New Total Monthly Payment

P&I Payment - \$1075

Taxes - \$50

Insurance - \$75

HOA Dues - \$100

Total \$1300

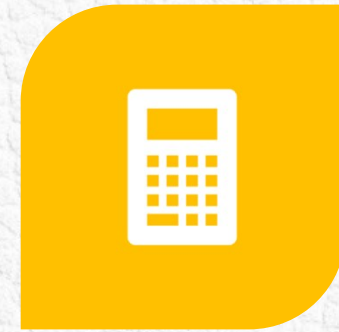
Total Increase in Dollars $\$1300 - \$1225 = \$75.00$ ✓

Total Increase in % $\$1225/\$1300 = 94.23\% = 5.77\%$ Increase

Another option $\$1225 \times 5\% = \61.25 ✗

Pitfalls

Table of Residual Incomes by Region For loan amounts of \$80,000 and above				
Family Size	Northeast	Midwest	South	West
1	\$450	\$441	\$441	\$491
2	\$755	\$738	\$738	\$823
3	\$909	\$889	\$889	\$990
4	\$1,025	\$1,003	\$1,003	\$1,117
5	\$1062	\$1,039	\$1,039	\$1,158
over 5	Add \$80 for each additional member up to a family of seven			



**NOT PROPERLY
CALCULATING RESIDUAL
INCOME**

Key to Geographic Regions Used in the Preceding Tables			
Northeast	Connecticut	New Hampshire	Pennsylvania
	Maine	New Jersey	Rhode Island
	Massachusetts	New York	Vermont
Midwest	Illinois	Michigan	North Dakota
	Indiana	Minnesota	Ohio
	Iowa	Missouri	South Dakota
	Kansas	Nebraska	Wisconsin
South	Alabama	Kentucky	Puerto Rico
	Arkansas	Louisiana	South Carolina
	Delaware	Maryland	Tennessee
	District of Columbia	Mississippi	Texas
	Florida	North Carolina	Virginia
	Georgia	Oklahoma	West Virginia
West	Alaska	Hawaii	New Mexico
	Arizona	Idaho	Oregon
	California	Montana	Utah
	Colorado	Nevada	Washington
			Wyoming



How to Become an Approved Broker?

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Get Approved

STEP 01

Please complete these two forms, so we can create your logins.
Once this is completed, you will be able to start submitting.

[Compensation Form](#)

[Contact Form](#)

Send Forms once complete to:

ApprovalDesk@myndm.com

If your company wishes to partner, we welcome you to complete our application by clicking on the button below. Thank you for considering Nations Direct Mortgage.

[Broker Package](#)

[Branch Addition Form](#)

[Express DSCR Addendum](#)

[Annual Recertification Agreement](#)



Thank You