

Loan Processing



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Permission is hereby granted to participants of the Loan Processing Seminar to use and reproduce portions of this material and to use the illustrations in connection with underwriting mortgage loans. This seminar is provided, along with the materials, on the understanding that the application of underwriting guidelines to a particular mortgage loan entails a certain degree of subjective interpretation and necessarily involves subjective analysis of certain data where the judgment of prudent underwriters could differ..

Loan processing is the phase of the loan process that occurs between the taking of the loan application and the underwriting of the loan. It consists of gathering and verifying all of the documentation required to make a quality loan decision. Loan processing is one of the most important steps in the mortgage loan process. It must be done carefully and quickly. The scope of loan processing, the specific tasks involved, and role of the person performing the phase vary by company and change as the industry evolves. However, the purpose of the loan processing remains the same.

The information gathered during the processing stage enables the underwriter to make the underwriting decision. The quality of that decision is only as good as the information on which it is based. If the information is incomplete or inaccurate, the underwriting decision may not be the correct one. A borrower that should have received a loan may be denied or a loan that should have been denied may be funded only to create financial problems for the lender down the road.

Mortgage fraud has been a serious problem over the years and still is. Although today's credit standards are much higher than they were a few years ago mortgage fraud continues to exist. The best way to stop mortgage fraud is to prevent it from happening. Red flags are items in a loan file that trigger questions that need to be addressed. Red flags may or may not represent actual fraud, but the more red flags in a file, the greater the likelihood of fraud. The loan processor is typically the first person to see all of the documentation for the loan. That makes them the eyes and ears of the lender and the first person most likely to detect red flags.

Even though many improvements have been made that were designed to shorten the loan processing phase, it is still the lengthiest phase. The longer it takes to process the loan, the longer it will be before the loan is funded and the lender begins to receive repayment. The person processing the loan has to balance the need for high quality with the need for speed.

This book addresses the following topics:

- The home buying process
- An overview of the Residential Loan Application
- The effect of automated underwriting systems on loan processing
- The documentation to be gathered
- Preparing the loan file for underwriting
- Red flags in the loan file

THE HOME-BUYING PROCESS

START HERE



BUDGET

Homebuyers figure out how much they can afford for down payment and housing expenses.



SHOP FOR A LOAN

Homebuyers contact lender to get pre-approved for a mortgage loan.



HOUSE HUNTING

Homebuyers work with a real estate agent to find their dream home and negotiate the sales agreement.



LOAN APPROVAL

Homebuyer finalizes application. Loan processor collects loan information, including appraisal and credit report, and submits loan to underwriting for final approval.

- **MI:** If homebuyer does not put 20% down payment, lender submits loan to mortgage insurance company.
- **Title Co.:** Lender obtains title insurance.



CLOSING

Homebuyers sign papers
Property ownership is transferred to homebuyers.



MOVING DAY

Homeowners move into their new dream home.



The Application



NOTES

The mortgage loan application contains valuable and necessary information about a potential borrower and property. The Uniform Residential Loan Application (FNMA 1003/FHLMC 65) is often considered standard in the mortgage industry. As an alternative, FNMA form 1003(S) Spanish/English Uniform Residential Loan Application may be used. The form must be completed in English or you must attach a translation and warrant that the translation is complete and accurate. This form is accepted by all mortgage investors and use of the uniform document is required by the two largest investors (Fannie Mae and Freddie Mac). The application contains most of the information needed to evaluate the borrower(s).

The sources for the information collected on the original application are the borrower, the sales contract, and, often, an in-file credit report.

It is standard practice for the loan originator to fill out the application form with the borrower. Upon completion of the application, the loan should be logged by the loan processor on the institution's standard form to track the status of the loan process. The loan processor will then review the application. The review is essential to ensure that the information on the application is as accurate and as complete as possible.

The information obtained on the application includes the exact location of the property, the borrower's income and employment history, and a comprehensive overview of the borrower's assets and liabilities. The application will be the basis for all the verifications in the loan package.

The mortgage loan application will provide the processor with a good idea of whether the borrower will qualify for the mortgage loan and what additional information will be necessary to assemble the loan package.

The following section of this seminar outlines the Residential Loan Application. Each part of the application is explained, and the implications of certain information on loan approval are discussed

RESIDENTIAL LOAN APPLICATION

NOTES

Uniform Residential Loan Application

This application is designed to be completed by the applicant(s) with the Lender's assistance. Applicants should complete this form as "Borrower" or "Co-Borrower," as applicable. Co-Borrower information must also be provided (and the appropriate box checked) when the income or assets of a person other than the Borrower (including the Borrower's spouse) will be used as a basis for loan qualification or the income or assets of the Borrower's spouse or other person who has community property rights pursuant to state law will not be used as a basis for loan qualification, but his or her liabilities must be considered because the spouse or other person has community property rights pursuant to applicable law and Borrower resides in a community property state, the security property is located in a community property state, or the Borrower is relying on other property located in a community property state as a basis for repayment of the loan.

If this is an application for joint credit, Borrower and Co-Borrower each agree that we intend to apply for joint credit (sign below):

Borrower

Co-Borrower

The boxes in the first section of the application indicate whether there will be anyone else jointly responsible for the loan, such as a spouse. If the first box is checked, income or assets of someone other than the borrower will be considered in loan qualification. If the second box is checked, income or assets of someone other than the borrower will not be considered in loan qualification. The Equal Credit Opportunity Act limits the amount of information that may be requested on a non-applicant spouse. Other provisions such as state laws relating to community property or similar rights may further limit the information that may be requested. As a general rule, only information of a non-applicant spouse obtained through legal means (such as joint tax returns) should be considered. If either of the boxes is checked, an explanation should be provided in writing.

If the application is for joint credit, both the Borrower and Co-borrower must sign on the lines provided in the first section of the application.

NOTES

I. TYPE OF MORTGAGE AND TERMS OF LOAN (CHECK APPROPRIATE BOX)

Mortgage Applied for:	<input type="checkbox"/> VA <input type="checkbox"/> FHA	<input type="checkbox"/> Conventional <input type="checkbox"/> USDA/Rural Housing Service	<input type="checkbox"/> Other (explain):	Agency Case Number	Lender Case Number
Amount	Interest Rate	No. of Months	Amortization Type:	<input type="checkbox"/> Fixed Rate	<input type="checkbox"/> Other (explain):

Section I of the loan application includes information about the loan terms and loan type for the mortgage loan being requested.

Mortgage Applied for:

Check the box for the applicable loan for which the borrower is applying:

- **VA** – (Veterans Administration-lender must be approved by VA to offer this loan type).
- **FHA** – (Federal Housing Administration – lender must be approved by HUD to offer this loan type).
- **Conventional** – (Conforming 10 to 30 year programs).
- **USDA/Rural Housing/RD**
- **Other**

Agency Case Number:

Used only for FHA and VA loans. This is the case number the government agency assigns to the loan.

Lender Case Number:

The loan number that the lending institution assigns to the loan application.

Amount \$:

Insert the loan amount. The amount is generally rounded to the nearest \$50.00.

Interest Rate %:

Insert the initial interest rate to be charged. If the interest has not been locked, insert an estimate.

No. of Months:

Insert the term of the loan in months. The term should be in 5 year increments (120 months to 360 months).

Amortization Type:

Check the box for the applicable amortization type:

- **Fixed Rate**
Loans in which the interest rate and monthly payment amount are fixed for the entire term of the loan.
- **GPM**
Graduated Payment Method are loans in which the mortgage payments increase for a specified period of time and then remain fixed for the remaining loan term.
- **ARM (type)**
Loans in which the interest is adjusted periodically on a preset schedule. This includes 1 year, 3/1, 5/1, 7/1 and 10/1 loan types.
- **Other (explain)**
Loans include those with a balloon payment. If this type is selected, insert the loan description.

NOTES

The Application

NOTES

II. PROPERTY INFORMATION AND PURPOSE OF LOAN

II. PROPERTY INFORMATION AND PURPOSE OF LOAN					
Subject Property Address (street, city, state & ZIP)					No. of Units
Legal Description of Subject Property (attach description if necessary)					Year Built
Purpose of Loan <input type="checkbox"/> Purchase <input type="checkbox"/> Construction <input type="checkbox"/> Other (explain): <input type="checkbox"/> Refinance <input type="checkbox"/> Construction-Permanent			Property will be: <input type="checkbox"/> Primary Residence <input type="checkbox"/> Secondary Residence <input type="checkbox"/> Investment		
<i>Complete this line if construction or construction-permanent loan.</i>					
Year Lot Acquired	Original Cost	Amount Existing Liens	(a) Present Value of Lot	(b) Cost of Improvements	Total (a + b)
	\$	\$	\$	\$	\$
<i>Complete this line if this is a refinance loan.</i>					
Year Acquired	Original Cost	Amount Existing Liens	Purpose of Refinance	Describe Improvements <input type="checkbox"/> made <input type="checkbox"/> to be made	
	\$	\$		Cost: \$	
Title will be held in what Name(s)			Manner in which Title will be held		Estate will be held in: <input type="checkbox"/> Fee Simple <input type="checkbox"/> Leasehold (show expiration date)
Source of Down Payment, Settlement Charges, and/or Subordinate Financing (explain)					

Section II includes the property address, legal descriptions of subject property, and purpose of the loan.

Subject Property Address (street, city, state & ZIP):

This is the address of the property being purchased or refinanced. This address should identically match the address on the sales contract, appraisal, and the title report/survey.

No. of Units:

The number of residential living units in the subject property should be indicated (such as “2” for a duplex.)

Legal Description of Subject Property (attached description if necessary):

The legal description may be obtained from Offer to Purchase, Multiple Listing, Real Estate Agent, Warranty Deed if refinance, or Title Commitment. The legal description on the application should identically match the description on the appraisal and title report.

Legal descriptions can be quite long. If that is the case, insert the word “attached” and attach a separate piece of paper with the legal description to the application.

Year Built:

This information may be obtained from the multiple listing or real estate agent or seller.

Purpose of Loan:

Check the box that corresponds to the purpose of the loan.

- **Purchase:** The purpose of the loan is to purchase the subject property.
- **Refinance:** The purpose of the loan is to pay off an existing mortgage. A refinance may be necessary to change loan terms, pay off a second mortgage, withdraw equity or make home improvements.
- **Construction:** The purpose of the loan is to finance the construction of a residential building. The funds are distributed as the home is constructed. The borrower may have an agreement to purchase the land (sales contract). Cost of improvements should be supported by a construction agreement with a contractor.
- **Construction-Permanent:** The proceeds of the loan will be used to construct a residence. At the end of the construction period, the loan becomes long-term permanent financing. The borrower has a construction contract with the builder based on the estimated construction cost. The borrower may or may not already own the land on which the building will be constructed. (Property MUST be 100% complete before loan closing).
- **Other:** If this option is chosen, provide an explanation.

Property will be:

Check the appropriate box.

- **Primary Residence:** One which the borrower will occupy most of the time.
- **Secondary Residence:** One which the borrower will occupy in addition to his/her primary residence (such as a vacation home).
- **Investment:** One that will not be occupied by the borrower but instead will be used to generate income.

Complete this line if this is a construction or construction-permanent loan:

For these loans, the application must include the year the lot was acquired, the original cost of the lot, any remaining amount owed on the lot and the lot's present value. The Cost of Improvements is the cost to build a residence on the lot. The cost can be found on the builder's contract or a cost breakdown. The Total Cost is the present value of the lot plus the cost of the improvements.

NOTES

NOTES

Complete this line if this is a refinance loan:

For a refinance loan, the application must include the year the property was originally acquired by the borrower, the original cost of the property, and the amount of any existing liens or balances owed on the property. The reason for the refinance should be briefly described. Improvements that have been made since acquisition on of the property or are to be made should be described. A construction cost breakdown may be required for improvements that have not been made.

Title will be held in what names:

Insert the full legal name(s) of the borrower. This is who will hold title to the property when loan closes and how the name(s) will appear on closing documents. This information is obtained from the borrower(s).

Manner in which title will be held:

Title may be held as Sole and Separate Property, Joint Tenants with Right of Survivorship; Tenancy in Common; Tenancy by Entireties.

IMPORTANT NOTE: Borrowers should consult their attorney and/or tax advisor to determine the manner of title that best suits their individual circumstances.

Estate will be held in:

- **Fee Simple:** The owner has standard rights and ownership of property, land and structure. In most cases this will be marked Fee Simple.
- **Leasehold:** The owner holds an interest in the property or part of the property by lease. Date of the lease expiration should be provided if the leasehold box is checked. A copy of the lease may be required.

Source of Downpayment, Settlement Charges and/or Subordinate Financing (explain):

Sources may include the sale of a home, savings, gift, grants or other. If a second mortgage will be included in the transaction, it must be described. Source of all large deposits must be verified.

IMPORTANT NOTE: Sources of down payment should be compared to borrower's assets to ascertain availability of funds needed

The Application

III. BORROWER AND CO-BORROWER INFORMATION

N O T E S

Borrower				III. BORROWER INFORMATION				Co-Borrower			
Borrower's Name (include Jr. or Sr. if applicable)				Co-Borrower's Name (include Jr. or Sr. if applicable)							
Social Security Number	Home Phone (incl. area code)	DOB (mm/dd/yyyy)	Yrs. School	Social Security Number	Home Phone (incl. area code)	DOB (mm/dd/yyyy)	Yrs. School				
<input type="checkbox"/> Married <input type="checkbox"/> Unmarried (include single, divorced, widowed)		Dependents (not listed by Co-Borrower)		<input type="checkbox"/> Married <input type="checkbox"/> Unmarried (include single, divorced, widowed)		Dependents (not listed by Borrower)					
		no.	ages			no.	ages				
Present Address (street, city, state, ZIP) <input type="checkbox"/> Own <input type="checkbox"/> Rent ___ No. Yrs.				Present Address (street, city, state, ZIP) <input type="checkbox"/> Own <input type="checkbox"/> Rent ___ No. Yrs.							
Mailing Address, if different from Present Address				Mailing Address, if different from Present Address							
<i>If residing at present address for less than two years, complete the following:</i>											
Former Address (street, city, state, ZIP) <input type="checkbox"/> Own <input type="checkbox"/> Rent ___ No. Yrs.				Former Address (street, city, state, ZIP) <input type="checkbox"/> Own <input type="checkbox"/> Rent ___ No. Yrs.							

Section III provides information about the borrower and co-borrower, if applicable.

Borrower's/Co-Borrower's Name (include Jr. or Sr. if applicable):

Full legal name must be used as it will appear on closing documents. It should be consistent with the Offer to Purchase and reflect the name exactly as it will be shown on title.

Social Security Number:

The Social Security number is required to obtain a credit report. It should be verified against other documentation in the file such as pay stubs or tax returns.

Home Phone (incl. area code):

The home telephone number including area code.

DOB:

Provide the Date of Birth in a MM/DD/YYYY format. It is required under the Home Mortgage Disclosure Act. The borrower(s) must be at least 18 years of age for the mortgage contract to be binding.

Yrs. School:

This is the total number of years in school, including grade school, college and graduate school.

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Marital Status:

The marital status may only be one of the following:

- **Married:** A married borrower may apply individually.
- **Separated:** A signed legal separation agreement is required.
- **Unmarried:** This includes a borrower who has never been married, or is divorced or widowed. If divorced, a full divorce decree is required to determine liabilities or income from alimony or child support.

Dependents (not listed by Borrower/Co-Borrower):

Dependents may include children, parents, or other persons claimed as dependents on the borrower's tax return. List ages of all dependents. Dependents listed in the borrower section should not be repeated in the co-borrower section and vice versa.

Present Address/Own/Rent/No of Years:

List the borrower's current street address plus number of years at this address and whether the borrower owns or rents the property.

Mailing Address, if different from Present Address:

List the borrower's mailing address if it is different than the borrower's present street address, for example the borrower's mail is sent to a P.O. Box.

Former Address:

Needed if the borrower has lived at his/her present address for less than two years. All former addresses within the last two years must be listed.

IV. EMPLOYMENT INFORMATION

NOTES

Borrower		IV. EMPLOYMENT INFORMATION				Co-Borrower	
Name & Address of Employer	<input type="checkbox"/> Self Employed	Yrs. on this job	Name & Address of Employer	<input type="checkbox"/> Self Employed	Yrs. on this job		
		Yrs. employed in this line of work/profession				Yrs. employed in this line of work/profession	
Position/Title/Type of Business	Business Phone (incl. area code)		Position/Title/Type of Business	Business Phone (incl. area code)			
<i>If employed in current position for less than two years or if currently employed in more than one position, complete the following:</i>							

Section IV provides employment information for the borrower and co-borrower, if applicable. The section begins at the bottom of page 1 and continues at the top of page 2.

Name & Address of Employer:

The complete name and address of the company where the borrower is employed and where verification of employment should be sent.

Self Employed:

Check the box if the borrower is self-employed. If self-employed, two years personal and business income tax returns and a year-to-date financial statement are required.

Important Note: A borrower is generally considered self-employed if he/she owns 25% or more of a business.

Yrs. on this job:

The number of years the borrower has been in this job. If less than two full years on this job, complete prior employment section. Accuracy is critical. If two years is indicated but the borrower only worked 1 year and 10 months, the process could be delayed.

Yrs. Employed in this line of work/profession:

The number of years the borrower has worked in this profession.

Position/Title/Type of Business:

Include the employer's name for the borrower's position within the company or his/her job title and type of business.

N O T E S

Business Phone:

The main telephone number for the business including area code.

NOTE: Borrowers employed less than two years may require additional review for income/employment stability. Generally, income is considered stable if the borrower is in the same line of work for at least two years. Employment/Income from a self-employed borrower with less than two years history is not considered stable income. May be considered on a case by case basis. Check with underwriter if not sure.

V. MONTHLY INCOME AND COMBINED HOUSING EXPENSE INFORMATION

NOTES

V. MONTHLY INCOME AND COMBINED HOUSING EXPENSE INFORMATION						
Gross Monthly Income	Borrower	Co-Borrower	Total	Combined Monthly Housing Expense	Present	Proposed
Base Empl. Income*	\$	\$	\$	Rent	\$	
Overtime				First Mortgage (P&I)		\$
Bonuses				Other Financing (P&I)		
Commissions				Hazard Insurance		
Dividends/Interest				Real Estate Taxes		
Net Rental Income				Mortgage Insurance		
Other (before completing, see the notice in "describe other income," below)				Homeowner Assn. Dues		
				Other:		
Total	\$	\$	\$	Total	\$	\$

* Self Employed Borrower(s) may be required to provide additional documentation such as tax returns and financial statements.

Describe Other Income *Notice:* Alimony, child support, or separate maintenance income need not be revealed if the Borrower (B) or Co-Borrower (C) does not choose to have it considered for repaying this loan.

B/C	Monthly Amount
	\$

Section V provides information on the borrower and co-borrower, if applicable, monthly income, and present and proposed housing expenses.

Gross Monthly Income:

Both the borrower's and co-borrower's gross monthly income should be provided.

■ **Base Employment Income*:**

Enter the monthly fixed income before taxes and other deductions are made. Verify the amount with paystubs and W2s or a verification of employment form. To convert income figures for time periods other than monthly:

- *Annual* – divide annual income by 12
- *Hourly* – multiply hourly wage x hours worked per week x 52 weeks divided by 12.
- *Bi-weekly* – multiply biweekly wage by 26 and divide by 12.
- *Bi-monthly* – multiply bi-monthly wage x 2.

■ **Overtime:**

Typically, income from overtime will be considered effective income if received for 2 years and continuance can be verified. Use the average monthly amount of the two years.

■ **Bonuses:**

Typically, Income from bonuses will be considered effective income if received for 2 years and continuance can be verified. Use the average monthly amount of the two years.

NOTES

■ **Commissions:**

Typically, commissions will be considered effective income if received for 2 years and continuance can be verified. Use the monthly average of the two years. If 25% or more of the individual borrower's qualifying income is derived from commission then they must provide complete signed federal income tax returns (including Form 2016 if applicable) for the previous two years.

■ **Dividends/Interest:**

Reasonable interest on verified savings/stocks will accepted. Provide Tax Returns to verify most recent 2 years history and verify borrower still has the asset(s) generating the income.

Important Note: Deduct from income any dividend or interest earned on assets that will be used for closing.

■ **Net Rental Income:**

Derived from the Schedule of Real Estate Owned on page 3 of the application.

Must be supported by a current lease on property or copies of the past two years tax returns.

Lease Income to be calculated as follows:

(Monthly Gross Rental Income x 75%) - current mortgage payment (P&I, Taxes and Insurance) = Net Rental Income If the net cash flow for an investment property is a positive number, it should be listed as "net rental income". If it is a negative number, it must be included in the applicant's monthly obligation.

■ **Other:**

Other sources of income may include child support, alimony, military reserve pay, or disability pay. A description of the income source and verification of the income must be provided.

Before asking if other income is available, read to applicant the notice that if alimony, child support, or separate maintenance is to be used, it must be supported with a copy of the divorce decree verifying 3-year continuance and a copy of the court records (or copies of cancelled checks) showing regular receipt of payment for at least 12 months (shorter period may be acceptable per AUS findings) .

■ **Total:**

The sum of all income sources.

Combined Monthly Housing Expense

This section compares present monthly housing expenses with proposed monthly housing expenses.

- **Rent:**
The current monthly amount, if the borrower is currently renting.
- **First Mortgage (P&I):**
Calculate based on loan amount, interest rate and term that was completed on page one of application (principal and interest only).
- **Other Financing (P&I):**
Enter monthly payment paid (or to be paid) on a second mortgage/junior lien that will not be paid off with this transaction.
- **Hazard Insurance:**
To calculate the proposed monthly amount, the industry commonly uses .4% of the loan amount. Check with your institution for its guidelines. The calculation:

$$.4\% \times \text{Loan Amount} \div 12 = \text{Monthly Amount}$$
In Texas: $.5\% \times \text{Loan Amount} \div 12 = \text{Monthly Amount}$
- **Real Estate Taxes:**
The industry standard estimation for the this figure uses the annual tax rate for the state or local taxing authority. The calculation:

$$(\text{Annual Tax Rate} \times \text{Sales Price}) \div 12 \text{ months} = \text{Monthly Amount}$$
- **Mortgage Insurance:**
May be required if the loan-to-value is greater than 80%. The specific premium rates can be obtained from the rate cards of various MI companies. If the premium is a monthly plan, the calculation is:

$$(\text{Base Loan Amount} \times \text{Renewal Rate}) \div 12 \text{ months} = \text{Monthly MI}$$
- **Homeowners Assn. Dues:**
The borrower pays these fees for grounds maintenance and use of common facilities in some communities, most commonly applies to Condominium and Planned Unit Develops (PUD) projects.
- **Other:**
These are expenses required as part of the present or proposed housing expense. Flood insurance and ground leases are examples of such expenses.

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■ **Total:**

The sum of the above for present and for proposed housing expense.

Describe Other Income

A “B” for borrower or a “C” for co-borrower should be listed to denote the wage earner. The monthly amount and the original source of the income should also be listed.

The Application

VI. ASSETS AND LIABILITIES

NOTES

VI. ASSETS AND LIABILITIES							
This Statement and any applicable supporting schedules may be completed jointly by both married and unmarried Co-Borrowers if their assets and liabilities are sufficiently joined so that the Statement can be meaningfully and fairly presented on a combined basis; otherwise, separate Statements and Schedules are required. If the Co-Borrower section was completed about a non-applicant spouse or other person, this Statement and supporting schedules must be completed about that spouse or other person also.							
Completed <input type="checkbox"/> Jointly <input type="checkbox"/> Not Jointly							
ASSETS		Cash or Market Value	Liabilities and Pledged Assets. List the creditor's name, address, and account number for all outstanding debts, including automobile loans, revolving charge accounts, real estate loans, alimony, child support, stock pledges, etc. Use continuation sheet, if necessary. Indicate by (*) those liabilities, which will be satisfied upon sale of real estate owned or upon refinancing of the subject property.				
Description		\$					
Cash deposit toward purchase held by:							
List checking and savings accounts below		LIABILITIES		Monthly Payment & Months Left to Pay	Unpaid Balance		
Name and address of Bank, S&L, or Credit Union		Name and address of Company		\$ Payment/Months	\$		
Acct. no.		Acct. no.					
Name and address of Bank, S&L, or Credit Union		Name and address of Company		\$ Payment/Months	\$		
Acct. no.		Acct. no.					
Name and address of Bank, S&L, or Credit Union		Name and address of Company		\$ Payment/Months	\$		
Acct. no.		Acct. no.					
VI. ASSETS AND LIABILITIES (cont'd)							
Name and address of Bank, S&L, or Credit Union		Name and address of Company		\$ Payment/Months	\$		
Acct. no.		Acct. no.					
Stocks & Bonds (Company name/ number & description)		\$	Name and address of Company		\$ Payment/Months	\$	
			Acct. no.				
Life insurance net cash value		\$	Name and address of Company		\$ Payment/Months	\$	
Face amount: \$							
Subtotal Liquid Assets		\$					
Real estate owned (enter market value from schedule of real estate owned)		\$					
Vested interest in retirement fund		\$					
Net worth of business(es) owned (attach financial statement)		\$	Acct. no.				
Automobiles owned (make and year)		\$	Alimony/Child Support/Separate Maintenance Payments Owed to:		\$		
Other Assets (itemize)		\$	Job-Related Expense (child care, union dues, etc.)		\$		
			Total Monthly Payments		\$		
Total Assets a.		\$	Net Worth (a minus b)		\$	Total Liabilities b. \$	
Schedule of Real Estate Owned (If additional properties are owned, use continuation sheet.)							
Property Address (enter S if sold, PS if pending sale or R if rental being held for income)	Type of Property	Present Market Value	Amount of Mortgages & Liens	Gross Rental Income	Mortgage Payments	Insurance, Maintenance, Taxes & Misc.	Net Rental Income
		\$	\$	\$	\$	\$	\$
Totals		\$	\$	\$	\$	\$	\$
List any additional names under which credit has previously been received and indicate appropriate creditor name(s) and account number(s):							
Alternate Name		Creditor Name			Account Number		

NOTES

Section VI provides information on the borrower's and co-borrower's, if applicable, assets, liabilities and real estate owned. The section begins at the bottom of page 2 and continues at the top of page 3.

Assets

This section provides information on the borrower's and co-borrower's, if applicable, assets.

- **Cash Deposit toward purchase held by:**

Enter the amount of the earnest money on deposit with a real estate agent or builder. The name of the entity must be listed. Verify by providing a copy of cancelled check; Verify if these funds are needed for closing.

- **List checking and saving accounts below:**

List the following information for each account:

- *Name and address of depository*
- *Account number*
- *Current balance*

Only verify those funds that are needed at closing. If the borrower lists funds that are not required for closing or for a compensating factor, it is not necessary to verify those funds.

- **Stocks & Bonds:**

The name of the brokerage and account number; if stocks are held by the individual, the company name and stock certificate number should be provided. These should be listed with their current market values.

- **Life Insurance net cash value:**

Only the Net Cash Value should be listed in the asset column. The face amount is entered for reference only.

- **Subtotal Liquid Assets:**

The sum of the items above.

- **Real Estate Owned:**

The estimated present market value of all real estate owned. This is taken from Section IV. Schedule of Real Estate Owned on page 3 of the application.

- **Vested Interest in retirement funds:**

Must be verified if funds are to be used for down payment and closing costs. Verification from depository or current statement showing vested interest. Can be used for verification of required reserves as well.

- **Net worth of businesses owned:**
The estimated net value of the borrower's equity in a business. If borrower is self-employed, the business tax return will contain this information.
- **Automobiles owned:**
List the make, year and estimated value provided.
- **Other Assets:**
This includes such items as collections, jewelry, boats, trailers, motorcycles, etc.
- **Total Assets:**
The sum of the last five items plus the subtotal of liquid assets from above.

Liabilities

This section provides information about the borrower's and co-borrower's, if applicable, liabilities.

- Enter the name of creditor, address; account number, required payment amount; and approximate unpaid balance
- Asterisk (*) and bracket loan payment to be paid with proceeds of subject loan if transaction is a refinance;
- Bracket payment on any rental property and show negative rent as an additional liability.
- **Automobile loans and leases:**
Include the scheduled monthly payment amount on auto loans and auto leases.
- **Revolving credit card debts:**
Include the minimum payments for revolving accounts. Use 5% of current balance if there is a balance and no payment is listed.
- **Real Estate loans:**
Monthly payment amount includes principal, interest, taxes and insurance.
- **Installment loans:**
Include scheduled monthly payment amount. Installment accounts with less than 10 monthly payments remaining may be disregarded unless the payment is substantial to adversely affects the borrower's ability to make the new mortgage payment. This guideline is used on a case-by-case basis.

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- **Deferred Installment Loans** – Deferred installment debt such as deferred student loans, must be included. In lieu of obtaining copies of payment letters or forbearance agreements, the lender can calculate a monthly payment using no less than 2% of the outstanding balance. If the debt amount exceeds \$5000, a statement must be obtained to verify minimum payment amount.
- **Co-signed accounts** – When a borrower co-signs for a loan to enable another party to obtain credit the borrower has a contingent liability (even if the Borrower is not the party who is actually repaying the debt). Not all contingent liabilities will need to be counted as part of the borrower’s recurring monthly debt obligation. The contingent liability will not be considered a debt if all of the following criteria is met:
 - The loan is at least 12 months’ old and the primary obligor has made all payments on the loan.
 - The history of payments by the primary obligor is documented.
 - The loan is current and there have been no delinquent payments since origination of the loan.
- **Stock pledges:**
Any debts against stocks owned, including stocks purchased “on margin,” should be listed.
- **Alimony, Child Support, Separate Maintenance Payments:** Payee’s name and monthly amount should be listed.
 - Total Monthly payments:
The sum of all monthly payments.
 - Total Liabilities:
The sum of all outstanding loan balances.

Net Worth:

- **Total Assets – Total Liabilities = Net Worth.**

Schedule of Real Estate Owned

This section should reflect a listing of ALL properties (including the subject property if the transaction is a refinance.)

■ **Property Address:**

List all real estate property the borrower/co-borrower own and the disposition of each property:

S = sold,

PS = pending sale,

R = rental,

V = vacant,

H = subject home (if refinance)

The disposition of each property will determine what documentation will be required.

Conversion Property

If the borrower will retain a current principal residence that is pending sale, but the transaction will not close prior to the new transaction, additional requirements and documentation will apply. Please refer to Arch MI's Conversion of Primary Residence guidelines.

If the borrower's current principal residence that, as a result of the new transaction, is being converted to an investment property or second home additional requirements and documentation will apply. Please refer to Arch MI's Conversion of Primary Residence guidelines.

■ **Type of property:**

Property may be a single family residence (SFR), duplex (2), condominium, lot or commercial.

■ **Present Market Value:**

Estimated current value of the property.

■ **Amount of Mortgages & Liens:**

Total dollar amount of all liens (outstanding balances) on the property.

■ **Gross Rental Income:**

If property is an investment property list gross monthly rental income/loss. This is the amount of the rent from a lease agreement or the average of two years' rents documented on tax returns.

■ **Mortgage Payments:**

Enter Principal and Interest payment.

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■ **Insurance/Maintenance/Taxes & Misc:**

Enter total of all of the figures below in one box

- Insurance: Indicate monthly hazard insurance (flood insurance) premium.
- Maintenance. Enter expenses as listed on the tax returns or enter 25% of gross rental income.
- Taxes. Include monthly real estate tax amount if it was not included in the “mortgage payment”.
- Misc: HOA dues, leasehold fee, etc.

■ **Net Rental Income:**

When the rental income is from other investment property owned, rental income can be documented by obtaining copies of two years’ tax returns, including the schedule E, or copies of the current lease agreements. If the borrower has owned the properties for more than 12 months, the tax returns are required to determine the property cash flow. Lease agreements may only be used (at 75% of lease amount) when the property was acquired subsequent to the most recently filed tax return.

Alternative Name:

List any additional names under which credit has previously been received and indicate appropriate creditor name(s) and account number(s). Should be entered if any of the borrowers have:

- opened credit in another name, or
- had a loan pay out in the past six months that was in another name.

VII. DETAILS OF TRANSACTION

VII. DETAILS OF TRANSACTION	
a. Purchase price	\$
b. Alterations, improvements, repairs	
c. Land (if acquired separately)	
d. Refinance (incl. debts to be paid off)	
e. Estimated prepaid items	
f. Estimated closing costs	
g. PMI, MIP, Funding Fee	
h. Discount (if Borrower will pay)	
i. Total costs (add items a through h)	
VII. DETAILS OF TRANSACTION	
j. Subordinate financing	
k. Borrower's closing costs paid by Seller	
l. Other Credits (explain)	
m. Loan amount (exclude PMI, MIP, Funding Fee financed)	
n. PMI, MIP, Funding Fee financed	
o. Loan amount (add m & n)	
p. Cash from/to Borrower (subtract j, k, l & o from i)	

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Section VII provides information on the details of the transaction. The section begins on the bottom left-hand side of page 3 and continues at the top of page 4.

On the initial application, this information should be consistent with the information provided on the Good Faith Estimate. On the final application, this information should be consistent with the Settlement Statement.

a. Purchase price:

The amount should be consistent with information on purchase agreement.

b. Alterations, improvements, repairs

The cost of repairs to be made to the property. This should be completed for construction, construction-permanent, home improvement, and rehabilitation loans. The sales contract, construction contract, or appraisal may be identified there.

c. Land (if acquired separately)

The cost of the land if it is acquired separately. Use this line for construction/permanent loans.

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- d. **Refinance (include debts to be paid off)**
The outstanding balances of all liens and other debts of the borrower that will be paid off in refinance. This line will be the first one used if transaction is a refinance.
- e. **Estimated prepaid items:**
Include amounts from Good Faith Estimate (taxes, insurance, MI escrows, initial MI, insurance premiums and interim prepaid interest.) These are the items referred to as “Required Pre-pays,” which can be paid by buyer (or if seller is contributing funds towards closing costs seller may pay these).
- f. **Estimated closing costs:**
The borrower’s total cost to obtain the loan. Include all items from the Good Faith Estimate except amount included in e, g and h in this Details of Transaction.
- g. **PMI, MIP, Funding Fee:**
The total amount of the initial mortgage insurance premium, FHA Mortgage Insurance Premium (MIP) or VA funding fee that the borrower will pay in cash. Include all MI paid up-front or at closing and/or all MI financed. Do not include MI escrows. Do not include MI paid as a monthly fee during term of loan.
- h. **Discount (if borrower will pay):**
Include all discount points to be paid by the borrower. Do not include discount points paid by the seller.
- i. **Total costs (add items “a” through “h”):**
Self-explanatory.
- j. **Subordinate financing:**
The amount of any other financing related to the property. If subordinate loan is closed-end, enter current outstanding balance. If subordinate loan is open-end, enter credit limit.
- k. **Borrower’s closing costs paid by seller:**
List any amounts contributed by the seller or any other third party (for items considered to be a standard borrower expense). List these amounts only if those same amounts are reflected above as a borrower cost. Do not include standard items to be paid by the seller. The sales contract contains this information.

l. Other credits (explain):

List any deposits made in connection with the transaction such as the earnest money deposits, if verified and fees collected up-front, such as credit report/appraisal/etc.

m. Loan amount (exclude PMI, MIT, Funding Fee):

Show base loan amount only. Do not include financed MI.

n. PMI, MIP, Funding Fee financed:

This is the amount to be added to the base loan amount if the premium is to be financed. MIP is for FHA loans and Funding Fee is for VA loans.

o. Loan amount (add m & n):

Self-explanatory.

p. Cash from/to borrower (subtract j, k, l, & o from i):

The amount of funds due or refunded at closing. This would reflect loan proceeds on a refinance. This would reflect cash due at closing on a purchase. VERIFY SUFFICIENT FUNDS TO CLOSE.

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VIII. DECLARATIONS

VIII. DECLARATIONS				
If you answer "Yes" to any questions a through i, please use continuation sheet for explanation.	Borrower		Co-Borrower	
	Yes	No	Yes	No
a. Are there any outstanding judgments against you?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
b. Have you been declared bankrupt within the past 7 years?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
c. Have you had property foreclosed upon or given title or deed in lieu thereof in the last 7 years?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
d. Are you a party to a lawsuit?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
e. Have you directly or indirectly been obligated on any loan which resulted in foreclosure, transfer of title in lieu of foreclosure, or judgment? <small>(This would include such loans as home mortgage loans, SBA loans, home improvement loans, educational loans, manufactured (mobile) home loans, any mortgage, financial obligation, bond, or loan guarantee. If "Yes," provide details, including date, name, and address of Lender, FHA or VA case number, if any, and reasons for the action.)</small>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
VIII. DECLARATIONS				
If you answer "Yes" to any questions a through i, please use continuation sheet for explanation.	Borrower		Co-Borrower	
	Yes	No	Yes	No
f. Are you presently delinquent or in default on any Federal debt or any other loan, mortgage, financial obligation, bond, or loan guarantee? <small>If "Yes," give details as described in the preceding question.</small>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
g. Are you obligated to pay alimony, child support, or separate maintenance?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
h. Is any part of the down payment borrowed?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
i. Are you a co-maker or endorser on a note?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

j. Are you a U.S. citizen?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
k. Are you a permanent resident alien?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
l. Do you intend to occupy the property as your primary residence? <small>If "Yes," complete question m below.</small>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
m. Have you had an ownership interest in a property in the last three years? <small>(1) What type of property did you own—principal residence (PR), second home (SH), or investment property (IP)? (2) How did you hold title to the home—solely by yourself (S), jointly with your spouse (SP), or jointly with another person (O)?</small>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	_____	_____	_____	_____
	_____	_____	_____	_____

Answers to the questions in Section VIII are very important. Each question should be answered individually by each borrower. If 'a' through 'i' have "yes" answers and if 'j' or 'k' have "no" answers, additional information is required from the borrower, including an explanation. Page four of the application may be used for this additional information.

a. Are there any outstanding judgments against you?

If yes, include a written explanation. Indicate when and why judgment occurred and why it shouldn't re-occur. This can also apply to collections, charge-offs or tax liens. The judgment must be satisfied prior to closing.

b. Have you been declared bankrupt within the past 7 years?

If yes, include a detailed credit explanation to why it happened and why it will not happen again. Provide complete copy of bankruptcy papers with all schedules and discharge. The bankruptcy must have been fully discharged for at least four years (with documented extenuating circumstances. A bankruptcy discharged for two years may be considered). The borrower must have re-established good credit and demonstrated an ability to manage financial affairs. This secondary market

requirement may be interpreted differently from one investor to another. Check with the investor to determine how this requirement must be satisfied. Note: A borrower with multiple filings requires a 5 year waiting period (and 3 years if documented extenuating circumstances).

c. Have you had property foreclosed upon for or given title or deed-in-lieu thereof in the last 7 years?

If yes, an explanation is required. The loan to a borrower, who was foreclosed up to seven years prior to the new loan application date, should be evaluated on a case-by-case basis. With acceptable documented extenuating circumstances, the new loan can be considered after 3 years, provided the LTV does not exceed 90%. The borrower must have reestablished good credit and demonstrated an ability to manage financial affairs; borrower to provide statement explaining cause of foreclosure and why it won't reoccur. This secondary market requirement may be interpreted differently from one investor to another. Check with your investor to determine how this requirement must be satisfied.

d. Are you party to a lawsuit?

If yes, a detailed explanation is required including any possible financial implication. Confirm/verify there will be no contingent liability after lawsuit is finalized.

e. Have you directly or indirectly been obligated on any loan which resulted in foreclosure, transfer of title in lieu of foreclosure, or judgment?

If yes, a detailed explanation must be provided including name and address of lender and applicable dates; FHA or VA case number and the reason for the action.

f. Are you presently delinquent or in default on any federal debt or any other loan, mortgage, financial obligation, bond or loan guarantee?

If yes, a detailed explanation must be provided including name and address of lender and applicable dates; FHA or VA case number and the reason for the action.

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g. Are you obligated to pay alimony, child support or separate maintenance?

If yes, request a copy of the signed divorce decree. Most investors will not require a credit rating to confirm payments are current.

h. Is any part of the down payment borrowed?

If yes, confirm loan is secured by the borrower's own asset (savings account, CD, or other financial asset account). Generally the debt is not required to be included in the debt ratio because the security instrument (the note) allows the lender the right to access the asset to fulfill the obligation.

i. Are you a co-maker or endorser on a note?

If the borrower is a co-signer/guarantor on a debt (consumer or real estate) for another person, the answer will be yes. Refer to guidelines for co-signed accounts in Section VI: Assets and Liabilities.

j. Are you a U.S. citizen?

If answer is "no," follow instructions for permanent/non-permanent resident alien (item k).

k. Are you a permanent resident alien?

If yes, evidence of occupancy status for a permanent resident alien will be validated by one of the following documents:

- U.S. Department of Immigration and Naturalization Services (INS) Alien Registration Receipt Card (I-151 or I-551, commonly referred to as a "Green Card") issued no earlier than 1979.
- INS Alien Registration Receipt Card (I-551) with no expiration date on the back, if accompanied by a filed INS Form I-751.
- Un-expired foreign Passport with an un-expired stamp reading "Processed for I-551. Temporary evidence of lawful admission for permanent residence. Valid until (MM/DD/YY). Employment authorized."

Non-Permanent Resident Aliens are non-U.S. citizens who are permitted to reside in the U.S. on a temporary basis and may have been granted authorization to work in the U.S. by the U.S. Citizenship & Immigration Services. It is required that evidence be obtained to prove that the borrower is legally in this country.

l. Do you intend to occupy the property as your primary residence?

If yes, m(1) and m(2) should be answered as well. These questions are for government monitoring purposes.

m. Have you had an ownership interest in a property in the last three years?

If yes, the borrower must also complete items (1) and (2) to identify the type of property owned and the manner in which title was held. Compare the information here to Section II of the application.

(1) What type of property did you own?

- Principal residence = PR
- Second home = SH
- Investment property = IP

(2) How did you hold title to the home?

- By yourself = S
- Jointly with your spouse = SP or jointly with another person = O

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The Application

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IX. ACKNOWLEDGMENT AND AGREEMENT

IX. ACKNOWLEDGEMENT AND AGREEMENT

Each of the undersigned specifically represents to Lender and to Lender's actual or potential agents, brokers, processors, attorneys, insurers, servicers, successors and assigns and agrees and acknowledges that (1) the information provided in this application is true and correct as of the date set forth opposite my signature and that any intentional or negligent misrepresentation of this information contained in this application may result in civil liability, including monetary damages, to any person who may suffer any loss due to reliance upon any misrepresentation that I have made on this application, and/or in criminal penalties including, but not limited to, fine or imprisonment or both under the provisions of Title 18, United States Code, Sec. 1001, et seq.; (2) the loan requested pursuant to this application (the "Loan") will be secured by a mortgage or deed of trust on the property described in this application; (3) the property will not be used for any illegal or prohibited purpose or use; (4) all statements made in this application are made for the purpose of obtaining a residential mortgage loan; (5) the property will be occupied as indicated in this application; (6) the Lender, its servicers, successors or assigns may retain the original and/or an electronic record of this application, whether or not the Loan is approved; (7) the Lender and its agents, brokers, insurers, servicers, successors, and assigns may continuously rely on the information contained in the application, and I am obligated to amend and/or supplement the information provided in this application if any of the material facts that I have represented herein should change prior to closing of the Loan; (8) in the event that my payments on the Loan become delinquent, the Lender, its servicers, successors or assigns may, in addition to any other rights and remedies that it may have relating to such delinquency, report my name and account information to one or more consumer reporting agencies; (9) ownership of the Loan and/or administration of the Loan account may be transferred with such notice as may be required by law; (10) neither Lender nor its agents, brokers, insurers, servicers, successors or assigns has made any representation or warranty, express or implied, to me regarding the property or the condition or value of the property; and (11) my transmission of this application as an "electronic record" containing my "electronic signature," as those terms are defined in applicable federal and/or state laws (excluding audio and video recordings), or my facsimile transmission of this application containing a facsimile of my signature, shall be as effective, enforceable and valid as if a paper version of this application were delivered containing my original written signature.

Acknowledgement. Each of the undersigned hereby acknowledges that any owner of the Loan, its servicers, successors and assigns, may verify or reverify any information contained in this application or obtain any information or data relating to the Loan, for any legitimate business purpose through any source, including a source named in this application or a consumer reporting agency.

Borrower's Signature	Date	Co-Borrower's Signature	Date
X		X	

The borrower(s) should be encouraged to carefully read this section. It contains important information the borrower should understand. It contains warnings related to fraud. Borrowers must sign and date the application stating that they have read and understand the application and the agreement.

The Application

X. INFORMATION FOR GOVERNMENT MONITORING PURPOSES

N O T E S

X. INFORMATION FOR GOVERNMENT MONITORING PURPOSES			
The following information is requested by the Federal Government for certain types of loans related to a dwelling in order to monitor the lender's compliance with equal credit opportunity, fair housing and home mortgage disclosure laws. You are not required to furnish this information, but are encouraged to do so. The law provides that a lender may not discriminate either on the basis of this information, or on whether you choose to furnish it. If you furnish the information, please provide both ethnicity and race. For race, you may check more than one designation. If you do not furnish ethnicity, race, or sex, under Federal regulations, this lender is required to note the information on the basis of visual observation and surname if you have made this application in person. If you do not wish to furnish the information, please check the box below. (Lender must review the above material to assure that the disclosures satisfy all requirements to which the lender is subject under applicable state law for the particular type of loan applied for.)			
BORROWER <input type="checkbox"/> I do not wish to furnish this information		CO-BORROWER <input type="checkbox"/> I do not wish to furnish this information	
Ethnicity: <input type="checkbox"/> Hispanic or Latino <input type="checkbox"/> Not Hispanic or Latino		Ethnicity: <input type="checkbox"/> Hispanic or Latino <input type="checkbox"/> Not Hispanic or Latino	
Race: <input type="checkbox"/> American Indian or Alaska Native <input type="checkbox"/> Native Hawaiian or Other Pacific Islander <input type="checkbox"/> White		Race: <input type="checkbox"/> American Indian or Alaska Native <input type="checkbox"/> Native Hawaiian or Other Pacific Islander <input type="checkbox"/> White	
Sex: <input type="checkbox"/> Female <input type="checkbox"/> Male		Sex: <input type="checkbox"/> Female <input type="checkbox"/> Male	
To be Completed by Interviewer This application was taken by: <input type="checkbox"/> Face-to-face interview <input type="checkbox"/> Mail <input type="checkbox"/> Telephone <input type="checkbox"/> Internet		Interviewer's Name (print or type) Interviewer's Signature _____ Date _____ Interviewer's Phone Number (incl. area code) _____	
		Name and Address of Interviewer's Employer	

The borrower and co-borrower are asked to complete the section regarding ethnicity, race or sex. The purpose of this section is to monitor the lender's compliance with fair housing and equal opportunity laws. The borrower(s) do not have to provide this information. If however, the borrower chooses not to provide this information, the lender is required under federal regulation to enter the race and sex based on visual observation or surname.

The loan originator must enter his or her name, sign and date the application, indicate his or her phone number and complete the name and address of his or her employer. The loan officer must also indicate how the application was received (face-to-face, mail, telephone or internet).

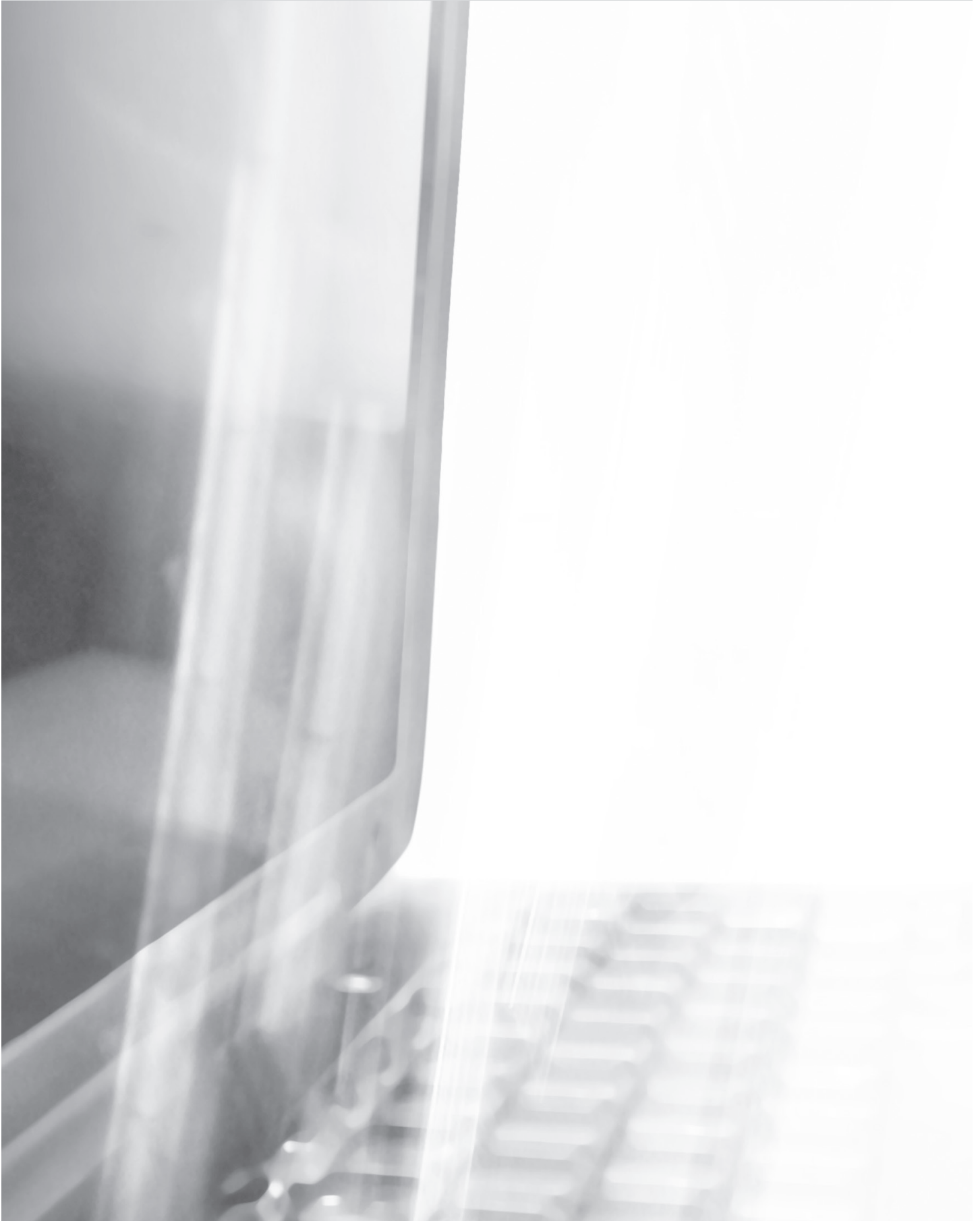
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XI. CONTINUATION SHEET

CONTINUATION SHEET/RESIDENTIAL LOAN APPLICATION			
Use this continuation sheet if you need more space to complete the Residential Loan Application. Mark B if Borrower or C for Co-Borrower.	Borrower:	Agency Case Number:	
	Co-Borrower:	Lender Case Number:	
I/We fully understand that it is a Federal crime punishable by fine or imprisonment, or both, to knowingly make any false statements concerning any of the above facts as applicable under the provisions of Title 18, United States Code, Section 1001, et seq.			
Borrower's Signature	Date	Co-Borrower's Signature	Date
X		X	

Any additional information should be provided here and identified as being attributed the Borrower with a “B” or the co-borrower with a “C.” The borrower’s signature is not required on this page if it is otherwise blank. If any information is provided on this page, it must also contain the member’s signature(s). This page must be included as a part of your loan package without regard to whether or not it contains additional information.

Automated Underwriting Systems



NOTES

Automated Underwriting Systems, or AUS, came on the mortgage scene in the mid-1990s, revolutionizing the mortgage industry.

An AUS is a computer-based underwriting tool used by mortgage lenders to analyze the information needed to process mortgage loan applications and assist lenders in consistently evaluating the credit risk. The AUS evaluates an applicant's loan application and returns a credit risk assessment to the lender in just a few minutes. AUS typically assess the loan, borrower and property characteristics. Following are some of the factors that may be assessed by AUS:

Borrower Characteristics

- Credit history
- Credit card accounts
- Delinquent accounts
- Inquiries
- Public records, foreclosures and collection accounts
- Debt-to-income ratio
- Liquid reserves
- Self-employed borrowers

Loan and Property Characteristics

- Equity and loan-to-value ratio
- Loan purpose
- Loan term
- Loan type
- Number of borrowers
- Property type
- Occupancy

The most popular AUSs in the United States are Fannie Mae's Desktop Underwriter® (DU) and Freddie Mac's Loan Prospector® (LP), but many lenders, mortgage investors, and mortgage insurers have proprietary AUS.

AUS does not replace loan underwriting, instead it complements the process. AUS does not make the decision to approve or deny a loan. Instead they provide information to assist the lender in making the loan decision.

The process:

- Information from the loan application is entered into the AUS. The information may be entered directly into the AUS or transferred from a Loan Origination System (LOS).
- A document is returned that contains the credit risk evaluation, documentation requirements and underwriting considerations.
- Using the AUS feedback, documentation is obtained from the applicant.
- The information on the documentation is reconciled to the loan application information entered into the AUS.

- If there is a material difference between the documentation and the loan application information, the AUS must be updated to reflect the information on the documentation. The AUS will reevaluate the loan application information and return an updated feedback document.

Important Note: The AUS feedback is only as good as the information entered into the AUS. Garbage In – Garbage Out.

AUS revolutionized the mortgage industry by reengineering the loan processing and underwriting processes. Without AUS, a standard set of full documentation is collected from the borrower prior to the loan application being underwritten. With AUS, documentation requirements are based on the individual characteristics of the applicant(s) after the loan application has been evaluated.

Without AUS

- Complete the loan application
- Collect documentation to support all loan application information
- Underwrite the loan
- Reconciliation of loan information

With AUS

- Complete the loan application
- Process the loan application through the AUS. Obtain feedback on credit risk, required documentation and underwriting considerations
- Collect only the documentation detailed in the feedback
- Reconciliation of loan information

Benefits of AUS

AUS have become an integral part of the loan origination process because they provide benefits for both the lender and the consumer.

Benefits:

Consistency and objectivity

AUS use the same criteria to evaluate each loan application. In that way, evaluations are consistent and objective. AUS do not consider factors such as age, gender, marital status, national origin, race, religion or sexual orientation during the evaluation process, resulting in a fair and unbiased underwriting recommendation.

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Streamlining the loan application process

AUS bring the credit decision closer to the point of sale. Loan decisions can be obtained in minutes instead of days (or weeks). The amount of documentation is driven by the amount of risk in the loan application. The lower the risk, the less amount of documentation that is required. This also serves to shorten the time line.

Lower costs

AUS reduce time and much of the paperwork on each loan file. Because processing times are reduced, so are costs. Lower costs could also be a benefit for consumers.

Expanding markets

Credit evaluation is more accurate with AUS, so families that do not fit the traditional borrower profiles may be approved for loans that they would not otherwise be or may be approved for a conventional loan instead of a more costly subprime loan.

Independent Verifications



NOTES

INTRODUCTION

Independent verification of information on the loan application provided by the borrower is required. It supports the borrower's ability and willingness to meet his or her loan obligation. Verifications will establish the borrower's exact amount of income, assets, and financial obligations as well as credit history.

The loan processor will collect documentation to verify the following:

- Employment and income
- Assets
- Gifts
- Credit history and outstanding debts
- Rent or mortgage payment history

It is the loan processor's responsibility to compare the information on the verification documentation to the information provided by the borrower on the loan application. The borrower must provide an explanation for all material discrepancies in the information. The final loan application must reflect the information obtained from the verifications.

In addition to providing valuable information on the borrower's ability and willingness to repay the loan, each form of verification documentation serves as a "check" in detecting fraud before the loan is made. For this reason, the verification documentation must be carefully examined

Documentation should be reviewed for the following red flags:

- The verification source is inappropriate
- Handwritten forms are filled out with different colors of ink
- White-outs or cross-outs without an initial
- The type/font is inconsistent throughout the document
- The document contains rounded dollar amounts
- The document has blank sections or missing information
- Numbers are squeezed in or not aligned
- Dates are inconsistent

This section will address generally acceptable forms of documentation. However, documentation requirements may vary based on the investor, underwriting method or loan program. Each loan investor provides guidance on the type of acceptable verification documentation. Loans submitted through an Automated Underwriting System (AUS) will receive feedback with specific loan documentation requirements.

EMPLOYMENT VERIFICATION

Documentation is obtained to verify the borrower's employment and income. The employment should be verified for any borrower whose income is used for qualifying the mortgage loan. Employment and income must be verified for the two years that precede the date of the loan application. There are two sets of generally acceptable documentation that may be obtained.

Option 1:

- A Verification of Employment form (VOE) that covers the previous two year period and
- A Verbal VOE completed <_10 days prior to closing

Option 2:

- Most recent two-years' IRS W-2 forms,
- Payroll earning statement(s) for the last 30 days (including year-to-date earnings), and
- Telephone confirmation from the borrower's employer completed <_10 days prior to closing.

Regardless of the type of documentation used to verify employment and income, the following must be observed:

- Check the dates of employment. If the documentation does not cover the past two years, the borrower's previous employment must also be verified.
- If the borrower has been in school but not working for the past two years, he or she must provide a transcript or copy of the degree earned.
- For borrowers who are paid by the hour, the number of hours worked per week must appear on the pay stub or VOE.
- For borrowers who include overtime or bonus pay as part of the income, the documentation should include the amount of overtime or bonus earnings.
- Borrowers who receive income from commissions: If 25% or more of the individual borrower's qualifying income is derived from commission then they must provide complete signed federal income tax returns (including Form 2016 if applicable) for the previous two years.

NOTES

NOTES

VERIFICATION OF EMPLOYMENT FORM



Request for Verification of Employment

Privacy Act Notice: This information is to be used by the agency collecting it or its assignees in determining whether you qualify as a prospective mortgagor under its program. It will not be disclosed outside the agency except as required and permitted by law. You do not have to provide this information, but if you do not your application for approval as a prospective mortgagor or borrower may be delayed or rejected. The information requested in this form is authorized by Title 38, USC, Chapter 37 (if VA); by 12 USC, Section 1701 et. seq. (if HUD/FHA); by 42 USC, Section 1452b (if HUD/CPD); and Title 42 USC, 1471 et. seq., or 7 USC, 1921 et. seq. (if USDA/FmHA).

Instructions: Lender – Complete items 1 through 7. Have applicant complete item 8. Forward directly to employer named in item 1.
 Employer – Please complete either Part II or Part III as applicable. Complete Part IV and return directly to lender named in item 2.
 The form is to be transmitted directly to the lender and is not to be transmitted through the applicant or any other party.

Part I – Request

1. To (Name and address of employer)		2. From (Name and address of lender)	
--------------------------------------	--	--------------------------------------	--

I certify that this verification has been sent directly to the employer and has not passed through the hands of the applicant or any other interested party.

3. Signature of Lender	4. Title	5. Date	6. Lender's Number (Optional)
------------------------	----------	---------	-------------------------------

I have applied for a mortgage loan and stated that I am now or was formerly employed by you. My signature below authorizes verification of this information.

7. Name and Address of Applicant (include employee or badge number)	8. Signature of Applicant
---	---------------------------

Part II – Verification of Present Employment

9. Applicant's Date of Employment	10. Present Position	11. Probability of Continued Employment
-----------------------------------	----------------------	---

12A. Current Gross Base Pay (Enter Amount and Check Period)		13. For Military Personnel Only		14. If Overtime or Bonus is Applicable, is its Continuance Likely?	
Annual <input type="checkbox"/> Hourly <input type="checkbox"/>		Pay Grade		Overtime <input type="checkbox"/> Yes <input type="checkbox"/> No	
Monthly <input type="checkbox"/> Other (Specify) <input type="checkbox"/>		Type	Monthly Amount	Bonus <input type="checkbox"/> Yes <input type="checkbox"/> No	
\$ _____ Weekly <input type="checkbox"/>		Base Pay	\$	15. If paid hourly – average hours per week	

12B. Gross Earnings				13. For Military Personnel Only		14. If Overtime or Bonus is Applicable, is its Continuance Likely?
Type	Year To Date	Past Year	Past Year	Rations	\$	
Base Pay	\$ _____ Thru _____	\$ _____	\$ _____	Fight or Hazard	\$	16. Date of applicant's next pay increase
Overtime	\$ _____	\$ _____	\$ _____	Clothing	\$	
Commissions	\$ _____	\$ _____	\$ _____	Quarters	\$	17. Projected amount of next pay increase
Bonus	\$ _____	\$ _____	\$ _____	Pro Pay	\$	
Total	\$ 0.00	\$ 0.00	\$ 0.00	Overseas or Combat	\$	18. Date of applicant's last pay increase
				Variable Housing Allowance	\$	

20. Remarks (If employee was off work for any length of time, please indicate time period and reason)

Part III – Verification of Previous Employment

21. Date Hired	23. Salary/Wage at Termination Per (Year) (Month) (Week)		
22. Date Terminated	Base _____	Overtime _____	Commissions _____ Bonus _____
24. Reason for Leaving	25. Position Held		

Part IV – Authorized Signature - Federal statutes provide severe penalties for any fraud, intentional misrepresentation, or criminal connivance or conspiracy purposed to influence the issuance of any guaranty or insurance by the VA Secretary, the U.S.D.A., FmHA/FHA Commissioner, or the HUD/CPD Assistant Secretary.

26. Signature of Employer	27. Title (Please print or type)	28. Date
29. Print or type name signed in Item 26	30. Phone No.	

Fannie Mae
Form 1005 July 96

The VOE form is used to confirm the borrower's employment and income. This form must be signed by the borrower authorizing the lender to obtain the information. It should be sent by the loan processor directly to the borrower's employer to the attention of the Human Resources or Personnel Department. The borrower is not to handle the VOE once they have signed it and cannot courier the form between the lender and the employer.

The lender and borrower complete Part I of the form. If the form is sent to the borrower's current employer, they will complete Part II and Part IV of the form. If the form is sent to the borrower's previous employer, they will complete Part III and Part IV of the form. The form must include the borrower's Employee ID number, if applicable, and Social Security number to ensure that the correct information is obtained. If the VOE is returned incomplete, it must be sent back to be completed.

When using a VOE form, it is often a good idea to call the appropriate person at the borrower's employer before sending the form to let him or her know that the form is coming and that it is time-sensitive. You may want to highlight the areas that need to be completed and write "Urgent" or "Rush" at the top of the form to emphasize the importance of a quick response. Include a self-addressed, stamped envelope when appropriate.

NOTES

Independent Verifications

NOTES

IRS FORM W-2

a Control number 22222		Void <input type="checkbox"/>	For Official Use Only ▶ OMB No. 1545-0008				
b Employer identification number (EIN)			1 Wages, tips, other compensation	2 Federal income tax withheld			
c Employer's name, address, and ZIP code			3 Social security wages	4 Social security tax withheld			
			5 Medicare wages and tips	6 Medicare tax withheld			
			7 Social security tips	8 Allocated tips			
d Employee's social security number			9 Advance EIC payment	10 Dependent care benefits			
e Employee's first name and initial		Last name	Suff.	11 Nonqualified plans	12a See instructions for box 12		
f Employee's address and ZIP code			13 Statutory employee <input type="checkbox"/>	Retirement plan <input type="checkbox"/>	Third-party sick pay <input type="checkbox"/>		
			14 Other			12b	
						12c	
				12d			
15 State	Employer's state ID number	16 State wages, tips, etc.	17 State income tax	18 Local wages, tips, etc.	19 Local income tax	20 Locality name	

W-2 Wage and Tax Statement **2006** Department of the Treasury—Internal Revenue Service
 Form **W-2 Wage and Tax Statement** **2006** For Privacy Act and Paperwork Reduction Act Notice, see back of Copy D.
 Copy A For Social Security Administration — Send this entire page with Form W-3 to the Social Security Administration; photocopies are **not** acceptable. Cat. No. 10134D

Do Not Cut, Fold, or Staple Forms on This Page — Do Not Cut, Fold, or Staple Forms on This Page

A Form W-2, Wage and Tax Statement, is provided to most salaried and commissioned employees by their employer. Lenders may use this form, in conjunction with other documentation, to verify a borrower's employment and income in place of a VOE form.

W-2 forms for the most recent 2-year period must be obtained. The W-2 forms may be obtained directly from the borrower. The information on the form must be complete and legible and clearly identify the borrower as the employee.

Independent Verifications

PAYSTUBS OR PAYROLL EARNING STATEMENTS

Check No.	Emp.No.	Employee Name	Soc.Sec.No.	Fed Ex	State Ex	MS	Period Ending	
Earnings		Deductions						
Description	Hours	Earnings	Description	Amount	Y.T.D.	Description	Amount	Y.T.D.
HOURLY	40 00	700 00	F.I.T.	139 82	3076 04			
			F.I.C.A.	56 78	1249 16			
			STATE	42 04	924 88			
			CITY					
			OTHER					
Current	40 00	700 00	Total	238 64				
Total			Deductions					
Year To Date Earnings		15400 00	Net Pay		461 36	Detach and retain this statement		

NOTES

Lenders may also utilize the borrower's paystub or payroll earning statement, in conjunction with other forms, in place of a VOE form.

The paystub or earning statement must cover the borrower's earnings for the most recent 30-day period. The information on the documentation must be complete and legible. It must also clearly identify the borrower as the employee and show the employee's gross earnings for the most recent 30-day period and year-to-date. The documentation may be obtained directly from the borrower.

NOTES

TELEPHONE CONFIRMATION

Verbal Verification of Employment

Date: _____

Borrower Name: _____

Company Name: _____

Phone Number: _____

Independent Source: Directory Assistance: _____
 Telephone Book: _____
 Applicable Licensing Bureau: _____

Company Address: _____

Verified by:**
 Name:** _____
 Title:** _____

Employment Status: Currently Employed: _____
 Not Currently Employed: _____
 Self-Employed: _____
 Other (specify): _____

Add'l Information: _____

Completed By: _____

**Not Required for Self-Employed Borrower

Verbal VOE Rev 1/06

In addition to a paystub and Forms W-2, the loan processor should verbally verify that the borrower is employed by the company stated on the loan application. The results of the verification should be documented on a form similar to the one shown here and placed in the loan file.

The loan processor should obtain the company telephone phone number from a third-party source and not use the number provided on the application or employment verification documentation. The telephone number may be obtained from directory assistance, the telephone book or the applicable licensing bureau. The information should be provided by the appropriate person in the Human Resources or Personnel Department. The following information should be verified:

- Company address
- Employment status (currently employed, not currently employed, self-employed or other)
- The name and title of the person providing the verification

Calculating Monthly Income**Hourly Rate**

If the borrower works 40 hours per week:

Hourly rate x 2,080 = Annual Income

Annual Income ÷ 12 = Monthly Income

OR

If the borrower works more or less than 40 per week:

Hourly rate x average number of hours worked per week = Weekly Income

Weekly Income x 52 = Annual Income

Annual Income ÷ 12 = Monthly Income

Weekly Income

Weekly rate x 52 = Annual Income

Annual Income ÷ 12 = Monthly Income

Biweekly Income

Biweekly rate x 26 = Annual Income

Annual Income ÷ 12 = Monthly Income

Twice Monthly Income

Twice monthly rate x 2 = Monthly Income

Self-Employed Borrowers

Generally, borrowers who have a 25% or greater ownership interest in a business are considered to be self-employed. In the case of a self-employed borrower, obtain copies of signed individual federal tax returns the borrower filed with the IRS for the past two years.

Borrower's employed in a Family Business/Interested Party

When a borrower is employed by a relative, closely held family business, the seller, real estate agent, Title Company, mortgage broker, or any other interested third-party, the VOE cannot be the sole source of income. Signed federal income tax returns for the past two years and W-2's and pay stubs are required.

NOTES

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ASSET VERIFICATION

The borrower must have sufficient funds for the down payment, closing costs and other expenses, and reserves for mortgage payments. There are two sets of generally acceptable documentation that may be obtained.

Option 1:

- A Verification of Deposit form (VOD)

Option 2:

- Original bank statements or investment portfolio statements for the most recent two month period.

The Asset and Liability section of the loan application should provide information on each type of account (checking, savings, and retirement accounts), including the name of the depository, account number and current balance.

Of particular importance is the average balance over the past two months. Underwriters will examine these amounts to determine if average balances vary greatly from the current balance. Significant variances between the average balance and the current balance could indicate an undisclosed loan. Verification of the source of the funds is required for large increases in account balances and on accounts less than six months old.

If stocks, bonds, certificate of deposits (CDs) or retirement accounts (401k/IRA) will be liquidated for down payments or closing costs, direct verification with the depository is generally required to determine the net amount that will be available to the borrower. Face value and market value may differ. .


If a retirement account (401K/IRA) is to be considered for funds for closing, the vested amount in the account must be discounted by 30% to account for market volatility. In addition, if the borrower is not of retirement age (typically 59 1/2) and will be assessed an early withdrawal penalty an additional 10% penalty must be considered Also, there may be a penalty or tax consequence for early withdrawal.

When stocks, bonds and/or mutual funds are to be used for reserves, the value must be discounted by 30%.

Independent Verifications

VERIFICATION OF DEPOSIT FORM

NOTES



Request for Verification of Deposit

Privacy Act Notice: This information is to be used by the agency collecting it or its assignees in determining whether you qualify as a prospective mortgagor under its program. It will not be disclosed outside the agency except as required and permitted by law. You do not have to provide this information, but if you do not your application for approval as a prospective mortgagor or borrower may be delayed or rejected. The information requested in this form is authorized by Title 38, USC, Chapter 37 (if VA); by 12 USC, Section 1701 et.seq. (if HUD/FHA); by 42 USC, Section 1452b (if HUD/CPD); and Title 42 USC, 1471 et.seq. or 7 USC, 1921 et.seq. (if USDA/FmHA).

Instructions: Lender — Complete Items 1 through 8. Have applicant(s) complete Item 9. Forward directly to depository named in Item 1.
 Depository — Please complete Items 10 through 18 and return DIRECTLY to lender named in Item 2.
The form is to be transmitted directly to the lender and is not to be transmitted through the applicant(s) or any other party.

Part I — Request

1. To (Name and address of depository)	2. From (Name and address of lender)
--	--------------------------------------

I certify that this verification has been sent directly to the bank or depository and has not passed through the hands of the applicant or any other party.

3. Signature of lender	4. Title	5. Date	6. Lender's No. (Optional)
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7. Information To Be Verified

Type of Account	Account in Name of	Account Number	Balance
			\$
			\$
			\$

To Depository: I/We have applied for a mortgage loan and stated in my financial statement that the balance on deposit with you is as shown above. You are authorized to verify this information and to supply the lender identified above with the information requested in Items 10 through 13. Your response is solely a matter of courtesy for which no responsibility is attached to your institution or any of your officers.

8. Name and Address of Applicant(s)	9. Signature of Applicant(s)
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To Be Completed by Depository

Part II — Verification of Depository

10. Deposit Accounts of Applicant(s)

Type of Account	Account Number	Current Balance	Average Balance For Previous Two Months	Date Opened
		\$	\$	
		\$	\$	
		\$	\$	

11. Loans Outstanding To Applicant(s)

Loan Number	Date of Loan	Original Amount	Current Balance	Installments (Monthly/Quarterly)	Secured By	Number of Late Payments
		\$	\$	\$ per		
		\$	\$	\$ per		
		\$	\$	\$ per		

12. Please include any additional information which may be of assistance in determination of credit worthiness. (Please include information on loans paid-in-full in Item 11 above.)

13. If the name(s) on the account(s) differ from those listed in Item 7, please supply the name(s) on the account(s) as reflected by your records.

Part III — Authorized Signature - Federal statutes provide severe penalties for any fraud, intentional misrepresentation, or criminal connivance or conspiracy purposed to influence the issuance of any guaranty or insurance by the VA Secretary, the U.S.D.A., FmHA/FHA Commissioner, or the HUD/CPD Assistant Secretary.

14. Signature of Depository Representative	15. Title (Please print or type)	16. Date
17. Please print or type name signed in item 14	18. Phone No.	

Fannie Mae
Form 1006 July 96

NOTES

The VOD form is used to confirm the borrower's balances in savings and checking accounts. This form must be signed by the borrower authorizing the lender to obtain the information. It should be sent by the loan processor directly to each depository where the borrower has funds on deposit. The borrower is not to handle the VOD once they have signed it and cannot courier the form between the lender and the depository.

The lender and borrower complete Part I of the form. The form is sent to the borrower's depository, which will complete Part II and Part III of the form. If the VOD is returned incomplete, it must be sent back to be completed.

When using a VOD form, it is often a good idea to call the appropriate person at the borrower's depository before sending the form to let him or her know that the form is coming and that it is time-sensitive. You may want to highlight the areas that need to be completed and write "Urgent" or "Rush" at the top of the form to emphasize the importance of a quick response. Include a self-addressed, stamped envelope when appropriate.

Statements

Lenders may use the borrower's bank or investment portfolio statements that cover the most recent two-month period in place of VOD forms. If account information is reported on a quarterly basis, the statement should be the most recent quarterly statement. The documentation may be obtained directly from the borrower.

Bank or investment portfolio statements must clearly identify the borrower as the account holder, the account number, the time period covered by the statement, all transactions and the ending balance. When bank statements are used, the lender must obtain the borrower's written explanation and documentation of the source of funds for large deposits, which are defined as a single deposit that exceeds 25% of the total monthly qualifying income for the loan.

Statements for retirement accounts must identify the borrower's vested amount and terms for withdrawals and loans.

GIFT LETTERS

Refer to the loan investor guidelines for specific eligibility and requirements for gifts.

The gift letter is used to verify gift funds that many borrowers use to supplement their closing costs and other cash settlement requirements. When gifts are involved in the transaction, a gift letter from the donor of the gift is required (in most cases, this person should be a blood relative of the borrower). A sample letter that fulfills requirements of a Gift Letter for most lenders appears on the previous page. Check with your supervisor or underwriter to be sure it includes all information required by your institution.

The most important requirement of a gift is that the money is, indeed, a gift and need not be repaid.

Gift funds can be used as part of the borrower's earnest money deposit or contributed at or before closing. The transfer of the gift funds to the borrower must be documented. A copy of the gift check from the donor and validated deposit slip from the borrower's account or evidence of receipt of funds by the settlement agent (escrow or attorney) will verify the transfer.

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CREDIT REPORTS

The credit report is used to assess each borrower's willingness to meet his or her debt obligations. Seven years of credit history is generally considered adequate. Payment history, whether derogatory or good, provides a picture of the borrower's payment character. Underwriters place heavy emphasis on paying habits as a key indicator of whether the borrower is a high or low risk. Even though payment history is reported for seven years, underwriters will usually be most concerned with the past 24 months. However if serious credit issues (such as bankruptcy and foreclosure) are reported, then a longer period of time is considered in the determination of the borrower's creditworthiness.

The credit report may be requested from one of many consumer credit reporting agencies; however, the report must be based on data provided by one of the national credit repositories: Equifax, Experian, and TransUnion. There are three types of credit reports.

- **"In File" Credit Report:** An "in file" credit report is provided by the national credit repository based on the data each contains in its own files.
- **"Merged" Credit Report:** A "merged" credit report is provided by a reporting agency. The reporting agency combines the information from the individual national credit repository's "in file" reports into a single report.
- **Residential Mortgage Credit Report:** A Residential Mortgage Credit Report is provided by a reporting agency. The agency must verify all information on the report, including employment information, from a third party other than the borrower.

The reporting agency should search records in each location that the borrowers have lived in the past two years. The report must include both credit and public record information for each location. In general, credit reports should contain the following information:

- Full name, address and telephone number of the reporting agency
- Names of the national repositories from which data was obtained
- Borrower's name
- Spouse's name, if applicable
- Social Security number
- Current address and length of time at address
- Whether subject owns or rents at current address
- Present employer and position
- Length of employment

- Previous employer
- Date of birth
- Listing of all accounts known to the repository including date opened, terms, payment ratings, and account holder designations
- A list of public records such as judgments, foreclosures, bankruptcies, divorce
- A credit score

Credit Bureau Alerts

Credit reporting agencies also offer fraud detection, which alerts creditors to possible discrepancies. Called Hawk Alert, Safecan, and FACS, they identify possible inconsistencies between the loan application and the credit report. These inconsistencies can identify issues with the borrowers surname, current residence, date of birth, invalid addresses or telephone number, employment and Social Security numbers. It is important that these alerts/ notifications are reviewed by the processor; confirming all information matches the information on the loan application and all discrepancies are addressed.

Credit Scores

Lenders take credit scores into consideration because they can be predictive of default risk. Credit scores can affect a borrower's ability to obtain a loan and the interest rate and amount of fees they pay for the loan. The higher scores are indicative of lower risk and lower scores are indicative of higher risk.

The most common credit score is the FICO® credit score developed by Fair Isaac Corporation. Each of the three national credit repositories issue credit scores based on the information that repository has on file. FICO® credit scores are based on five factors. All of the factors are considered in the development of the score:

- Payment history
- Amounts owed
- Length of credit history
- New credit
- Types of credit used

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Since the information that each repository has on file may differ so may the credit scores they issue. When three scores are reported on a credit report, the middle value is typically used. For example:

An individual credit report has the scores of 690, 675 and 685. The score of 685 would be used for qualifying because it is lower than 690 and higher than 675.

For a single borrower with two credit scores, use the lowest score.

For more than one borrower, select the appropriate score for each borrower using the above criteria, and then the borrower with the lowest score should be used.

Nontraditional Credit (May not always be considered in underwriting credit risk)

Some borrowers may have an insufficient number of credit references to develop a traditional credit report or do not have the types of credit that would appear on a traditional credit report. In that case, a nontraditional mortgage credit report can be prepared by a consumer credit reporting agency or a lender can request individual references directly from the borrower's creditors. A non-traditional credit report is only considered acceptable when the traditional credit report cannot be generated or provides less than the minimum required trade lines for all the borrower applicants. A non-traditional credit report is not acceptable to offset a derogatory traditional credit history.

Typically, the nontraditional credit profile should contain a minimum of four sources of nontraditional credit that have been active for at least 12 months (one housing related; one a utility company; and two from other sources. The credit references must have at least a quarterly repayment requirement.

The underwriter will evaluate the nontraditional credit history using the same standards used to evaluate a traditional credit history. The nontraditional credit reference (whether prepared by a credit reporting agency or verified by the lenders) should be formatted similar to a traditional credit report and contain the following information:

- Creditor's name
- Name of the individual providing the information
- The date the account was opened
- The amount of the highest credit
- The current status of the account
- The required payment amount
- The unpaid balance
- The payment history

Nontraditional credit should not be used to offset derogatory credit, to enhance a poor credit profile, or to develop a credit profile for a borrower without a credit history. Also the loan must meet certain eligibility criteria specific to the lender to be eligible for non-traditional credit.

Calculating Monthly Debt

Installment Loans

On installment loans (auto, school, etc.), the debt is not counted if there are 10 monthly payments or fewer remaining for the loan to be paid in full.

Revolving Accounts

All debts on revolving accounts are considered monthly obligations. In most cases, the monthly debt for a revolving account is the greater of the minimum monthly payment shown on the credit report or monthly billing statement. If no monthly payment amount is shown, the greater of 5% of the outstanding balance or \$10.00 should be used. For example:

- a. If a credit card balance is \$400, then \$20 is used as a monthly payment because it is more than \$10.00.

$$\$400 \times 5\% = \$20$$

- b. If the balance is \$100, then \$10.00 is used because 5% is less than \$10.00

$$\$100 \times 5\% = \$5.00$$

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Derogatory Credit

A letter of explanation written and signed by the borrower must be included with the loan file if there is derogatory credit information. Notify the loan originator officer immediately of any credit problems.

A poor credit history may be offset. For example, if poor credit can be isolated to a specific period of time, this may be an indication that the poor credit was a one-time occurrence due to loss of employment or illness. In these cases, it is helpful to give the underwriter a detailed explanation of the circumstances and third party verification to support the explanation.

If the derogatory information is reported on a credit report, check with the reporting agency to verify the validity of the item. If the derogatory information belongs to someone other than the borrower, ask the credit bureau to remove it from the report and send a supplemental or amended credit report.

Independent Verifications

VERIFICATION OF RENT OR MORTGAGE

NOTES

REQUEST FOR VERIFICATION OF RENT OR MORTGAGE ACCOUNT					
INSTRUCTIONS: <i>LENDER</i> — Complete Part I, Items 1 thru 8. Have <i>APPLICANT(S)</i> complete Part I, Item 9, and forward directly to <i>Creditor</i> named in Part I, Item 1. <i>LANDLORD/CREDITOR</i> — Please complete Part II, and return directly to <i>Lender</i> named in Part I, Item 2.					
PART I — REQUEST					
1. TO (Name and Address of Landlord/Creditor)			2. FROM (Name and Address of Lender)		
3. SIGNATURE OF LENDER		4. TITLE		5. DATE	6. LENDER'S NUMBER <small>(Optional)</small>
7. INFORMATION TO BE VERIFIED:					
PROPERTY ADDRESS		ACCOUNT IN THE NAME OF		ACCOUNT NO.	
<input type="checkbox"/> MORTGAGE <input type="checkbox"/> RENTAL <input checked="" type="checkbox"/> LAND CONTRACT <input type="checkbox"/>					
8. NAME AND ADDRESS OF APPLICANT(S)			9. SIGNATURE OF APPLICANT(S)		
PART II — TO BE COMPLETED BY LANDLORD/CREDITOR					
We have received an application for a loan from the above, to whom we understand you rent or have extended a loan. In addition to the information requested below please furnish us with any information you might have that will assist us in processing of the loan.					
<input type="checkbox"/> RENTAL ACCOUNT		<input type="checkbox"/> MORTGAGE ACCOUNT			
<input type="checkbox"/> LAND CONTRACT		<input type="checkbox"/> LAND CONTRACT			
Tenant has rented since _____	Date mortgage originated _____	Interest rate _____ %			
Amount of rent \$ _____ per _____	Original mortgage amount \$ _____	FIXED _____ ARM _____			
Is rent in arrears? Yes _____ No _____	Current mortgage balance \$ _____	FHA _____ VA _____			
Amount \$ _____ Period _____	Monthly payment P & I only \$ _____	FNMA _____ CONV _____			
Number of late payments _____	Payment with taxes & ins. \$ _____	Next pay date _____			
Is account satisfactory? Yes _____ No _____	Is mortgage current? Yes _____ No _____	No. of late payments _____			
_____	Is mortgage assumable? Yes _____ No _____	Insurance agent _____			
_____	Satisfactory account? Yes _____ No _____				
ADDITIONAL INFORMATION WHICH MAY BE OF ASSISTANCE IN DETERMINATION OF CREDIT WORTHINESS					
SIGNATURE OF DEPOSITORY		TITLE		DATE	
<i>The confidentiality of the information you have furnished will be preserved except where disclosure of this information is required by applicable law. The form is to be transmitted directly to the lender and is not to be transmitted through the applicant or any other party.</i>					
5/85					
USHMC P656					

NOTES

Verification of the borrower's past rent or mortgage payment history is required in addition to the credit report. The payment history should cover the most recent 12 month period.

In many cases, this information will be contained in the credit report. The Verification of Rent (VOR) or Mortgage Account (VOM) form is used to verify payment history if it is not contained in the credit report.

The lender and borrower complete Part I of the form. The form is sent to the borrower's landlord or mortgage creditor, who will complete Part II of the form. If the VOR/M is returned incomplete, it must be sent back to be completed.

When using a VOR/M form, it is often a good idea to call the appropriate person (landlord/creditor) before sending the form to let him or her know that the form is coming and that it is time-sensitive. You may want to highlight the areas that need to be completed and write "Urgent" or "Rush" at the top of the form to emphasize the importance of a quick response. Include a self-addressed, stamped envelope when appropriate.

The Property



NOTES

THE APPRAISAL

The property serves as the security for the mortgage loan and therefore must be examined to determine its market value, its marketability, its condition and the need, if any, for flood insurance.

This examination is done by an appraiser and documented via an appraisal report. (The examination must be performed by an appraiser who is experienced in appraising residential properties in the subject neighborhood and certified or licensed in the state.) The appraiser bases his or her judgment of the property on all of the following factors:

- The location of the property
- The condition of the property
- State of the housing market in the area

Appraisal Methods

There are three methods for determining the market value of a property:

Sales Comparison Approach

The Sales Comparison Approach, sometimes called the Market Data Approach, is the most widely used method. The appraiser conducts a review of at least three comparable properties (comps) that were sold and are located in the subject property's neighborhood or marketing area. The comps must be similar in size (structure and lot) and layout. The appraiser adjusts the value of the comps, based on differences between them and the subject property, to arrive at a range of value for the subject value.

Cost Approach

The Cost Approach assumes that the borrower will pay no more for a home than the cost to replace the home with current materials and features. It is a very reliable method for estimating value of a new or nearly new home; however, the reliability tends to decrease as a property ages due to the complexities with estimating accrued depreciation. The appraiser begins with the value of the land the house is on and adds the amount it would cost to build that house today. The value is then adjusted for depreciation and wear and tear based on age and condition of the property.

Income Approach

The Income Approach to value assumes that market value is driven by the potential stream of rental income a property is capable of producing. This approach is appropriate in single-family neighborhoods with a substantial number of rental properties. This approach is seldom used due to the lack of available comparable rental properties.

Ordering the Appraisal

The appraisal fee should have been collected from the borrower before the appraisal is ordered. The fee is usually collected by the loan officer.

The appraiser will need a copy of the sales/purchase contract that includes the legal description of the property and the name of the contact person who can provide access to the property (this is often the real estate agent). For new construction, the appraiser will also need a set of construction plans and specifications.

The type of inspection and appraisal form will depend on the property type, method of underwriting and the requirements of the loan investor. There are different appraisal report forms which are based on the type of property being appraised: single-family, condominium, cooperative unit, manufactured housing or 2-4 unit property. If the loan is submitted through an automated underwriting system (AUS), the appraisal needs may range from an exterior only review to a full interior and exterior review. The loan investor's guidelines will usually state the type of appraisal review and report that are acceptable.

Appraisal Review

The evaluation of the property is a vital component in the analysis of a mortgage loan as collateral. The underwriter typically places as much emphasis on appraisal review as they do on qualifying the borrower's creditworthiness. The underwriter is responsible for conducting an appraisal review that ensures that the report is complete, accurate, consistent with appraisal and investor standards, and provides a reasonable conclusion of value that is acceptable as security for the mortgage.

NOTES

NOTES

It is the loan processor's responsibility to review the appraisal report for the following:

- To make sure that all sections have been completed and that the form has been signed and dated by the appraiser.
- That the property characteristics on page one of the report are consistent with the Sales Comparison Approach on page 2.
- That all adjustments are adequately documented and all math on the form adds up correctly.
- That all items that adversely affect the value of the property are thoroughly explained and documented.
- That the opinion of market value is consistent with the purchase/refinance value reported by the borrower and the loan-to-value is consistent with the loan application.

Loan-to-value (LTV) is determined by dividing the loan amount by the lesser of the sales price or appraised value. Example:
\$90,000 loan amount ÷ \$100,000 appraised value = 90% loan-to-value

The Property

FANNIE MAE 1004 UNIFORM RESIDENTIAL APPRAISAL REPORT

NOTES

Uniform Residential Appraisal Report		File #																																																																																																																																				
The purpose of this summary appraisal report is to provide the lender/client with an accurate, and adequately supported, opinion of the market value of the subject property.																																																																																																																																						
Property Address	City	State Zip Code																																																																																																																																				
Borrower	Owner of Public Record	County																																																																																																																																				
Legal Description																																																																																																																																						
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Neighborhood Name	Map Reference	Census Tract																																																																																																																																				
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The Property

NOTES

FANNIE MAE 1004 UNIFORM RESIDENTIAL APPRAISAL REPORT

Uniform Residential Appraisal Report										File #
There are comparable properties currently offered for sale in the subject neighborhood ranging in price from \$										to \$
There are comparable sales in the subject neighborhood within the past twelve months ranging in sale price from \$										to \$
FEATURE	SUBJECT	COMPARABLE SALE # 1			COMPARABLE SALE # 2			COMPARABLE SALE # 3		
Address										
Proximity to Subject										
Sale Price										
Sale Price/Gross Liv. Area										
Data Source(s)										
Verification Source(s)										
VALUE ADJUSTMENTS		DESCRIPTION	DESCRIPTION	+(-) \$ Adjustment	DESCRIPTION	+(-) \$ Adjustment	DESCRIPTION	+(-) \$ Adjustment	DESCRIPTION	+(-) \$ Adjustment
Sale or Financing Concessions										
Date of Sale/Time										
Location										
Leasehold/Fee Simple										
Site										
View										
Design (Style)										
Quality of Construction										
Actual Age										
Condition										
Above Grade										
Room Count										
Gross Living Area										
Basement & Finished Rooms Below Grade										
Functional Utility										
Heating/Cooling										
Energy Efficient Items										
Garage/Carport										
Porch/Patio/Deck										
Net Adjustment (Total)										
Adjusted Sale Price of Comparables										
<input type="checkbox"/> did <input type="checkbox"/> not research the sale or transfer history of the subject property and comparable sales. If not, explain										
My research <input type="checkbox"/> did <input type="checkbox"/> did not reveal any prior sales or transfers of the subject property for the three years prior to the effective date of this appraisal.										
Data source(s)										
My research <input type="checkbox"/> did <input type="checkbox"/> did not reveal any prior sales or transfers of the comparable sales for the year prior to the date of sale of the comparable sale.										
Data source(s)										
Report the results of the research and analysis of the prior sale or transfer history of the subject property and comparable sales (report additional prior sales on page 3).										
ITEM	SUBJECT	COMPARABLE SALE # 1			COMPARABLE SALE # 2			COMPARABLE SALE # 3		
Date of Prior Sale/Transfer										
Price of Prior Sale/Transfer										
Data Source(s)										
Effective Date of Data Source(s)										
Analysis of prior sale or transfer history of the subject property and comparable sales										
Summary of Sales Comparison Approach										
Indicated Value by Sales Comparison Approach \$										
Indicated Value by: Sales Comparison Approach \$										
Cost Approach (if developed) \$										
Income Approach (if developed) \$										
This appraisal is made <input type="checkbox"/> "as is", <input type="checkbox"/> subject to completion per plans and specifications on the basis of a hypothetical condition that the improvements have been completed, <input type="checkbox"/> subject to the following repairs or alterations on the basis of a hypothetical condition that the repairs or alterations have been completed, or <input type="checkbox"/> subject to the following required inspection based on the extraordinary assumption that the condition or deficiency does not require alteration or repair.										
Based on a complete visual inspection of the interior and exterior areas of the subject property, defined scope of work, statement of assumptions and limiting conditions, and appraiser's certification, my (our) opinion of the market value, as defined, of the real property that is the subject of this report is \$ _____, as of _____, which is the date of inspection and the effective date of this appraisal.										

FANNIE MAE 1004 UNIFORM RESIDENTIAL APPRAISAL REPORT

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Uniform Residential Appraisal Report		File #
ADDITIONAL COMMENTS		
	COST APPROACH TO VALUE (not required by Fannie Mae)	
Provide adequate information for the lender/client to replicate the below cost figures and calculations.		
Support for the opinion of site value (summary of comparable land sales or other methods for estimating site value)		
COST APPROACH	ESTIMATED <input type="checkbox"/> REPRODUCTION OR <input type="checkbox"/> REPLACEMENT COST NEW	OPINION OF SITE VALUE = \$
	Source of cost data	Dwelling Sq. Ft. @ \$ = \$
	Quality rating from cost service Effective date of cost data	Sq. Ft. @ \$ = \$
	Comments on Cost Approach (gross living area calculations, depreciation, etc.)	Garage/Carport Sq. Ft. @ \$ = \$
		Total Estimate of Cost-New = \$
		Less Physical Functional External
		Depreciation = \$()
		Depreciated Cost of Improvements = \$
		"As-is" Value of Site Improvements = \$
INCOME APPROACH TO VALUE (not required by Fannie Mae)		
Estimated Monthly Market Rent \$ X Gross Rent Multiplier = \$	Indicated Value by Income Approach	
Summary of Income Approach (including support for market rent and GRM)		
PROJECT INFORMATION FOR PUDs (if applicable)		
Is the developer/builder in control of the Homeowners' Association (HOA)? <input type="checkbox"/> Yes <input type="checkbox"/> No Unit type(s) <input type="checkbox"/> Detached <input type="checkbox"/> Attached		
Provide the following information for PUDs ONLY if the developer/builder is in control of the HOA and the subject property is an attached dwelling unit.		
Legal name of project		
Total number of phases	Total number of units Total number of units sold	
Total number of units rented	Total number of units for sale Data source(s)	
Was the project created by the conversion of an existing building(s) into a PUD? <input type="checkbox"/> Yes <input type="checkbox"/> No If Yes, date of conversion		
Does the project contain any multi-dwelling units? <input type="checkbox"/> Yes <input type="checkbox"/> No Data source(s)		
Are the units, common elements, and recreation facilities complete? <input type="checkbox"/> Yes <input type="checkbox"/> No If No, describe the status of completion.		
Are the common elements leased to or by the Homeowners' Association? <input type="checkbox"/> Yes <input type="checkbox"/> No If Yes, describe the rental terms and options.		
Describe common elements and recreational facilities		

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This report form is designed to report an appraisal of a one-unit property or a one-unit property with an accessory unit; including a unit in a planned unit development (PUD). This report form is not designed to report an appraisal of a manufactured home or a unit in a condominium or cooperative project.

This appraisal report is subject to the following scope of work, intended use, intended user, definition of market value, statement of assumptions and limiting conditions, and certifications. Modifications, additions, or deletions to the intended use, intended user, definition of market value, or assumptions and limiting conditions are not permitted. The appraiser may expand the scope of work to include any additional research or analysis necessary based on the complexity of this appraisal assignment. Modifications or deletions to the certifications are also not permitted. However, additional certifications that do not constitute material alterations to this appraisal report, such as those required by law or those related to the appraiser's continuing education or membership in an appraisal organization, are permitted.

SCOPE OF WORK: The scope of work for this appraisal is defined by the complexity of this appraisal assignment and the reporting requirements of this appraisal report form, including the following definition of market value, statement of assumptions and limiting conditions, and certifications. The appraiser must, at a minimum: (1) perform a complete visual inspection of the interior and exterior areas of the subject property, (2) inspect the neighborhood, (3) inspect each of the comparable sales from at least the street, (4) research, verify, and analyze data from reliable public and/or private sources, and (5) report his or her analysis, opinions, and conclusions in this appraisal report.

INTENDED USE: The intended use of this appraisal report is for the lender/client to evaluate the property that is the subject of this appraisal for a mortgage finance transaction.

INTENDED USER: The intended user of this appraisal report is the lender/client.

DEFINITION OF MARKET VALUE: The most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller, each acting prudently, knowledgeably and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby: (1) buyer and seller are typically motivated; (2) both parties are well informed or well advised, and each acting in what he or she considers his or her own best interest; (3) a reasonable time is allowed for exposure in the open market; (4) payment is made in terms of cash in U. S. dollars or in terms of financial arrangements comparable thereto; and (5) the price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions* granted by anyone associated with the sale.

*Adjustments to the comparables must be made for special or creative financing or sales concessions. No adjustments are necessary for those costs which are normally paid by sellers as a result of tradition or law in a market area; these costs are readily identifiable since the seller pays these costs in virtually all sales transactions. Special or creative financing adjustments can be made to the comparable property by comparisons to financing terms offered by a third party institutional lender that is not already involved in the property or transaction. Any adjustment should not be calculated on a mechanical dollar for dollar cost of the financing or concession but the dollar amount of any adjustment should approximate the market's reaction to the financing or concessions based on the appraiser's judgment.

STATEMENT OF ASSUMPTIONS AND LIMITING CONDITIONS: The appraiser's certification in this report is subject to the following assumptions and limiting conditions:

1. The appraiser will not be responsible for matters of a legal nature that affect either the property being appraised or the title to it, except for information that he or she became aware of during the research involved in performing this appraisal. The appraiser assumes that the title is good and marketable and will not render any opinions about the title.
2. The appraiser has provided a sketch in this appraisal report to show the approximate dimensions of the improvements. The sketch is included only to assist the reader in visualizing the property and understanding the appraiser's determination of its size.
3. The appraiser has examined the available flood maps that are provided by the Federal Emergency Management Agency (or other data sources) and has noted in this appraisal report whether any portion of the subject site is located in an identified Special Flood Hazard Area. Because the appraiser is not a surveyor, he or she makes no guarantees, express or implied, regarding this determination.
4. The appraiser will not give testimony or appear in court because he or she made an appraisal of the property in question, unless specific arrangements to do so have been made beforehand, or as otherwise required by law.
5. The appraiser has noted in this appraisal report any adverse conditions (such as needed repairs, deterioration, the presence of hazardous wastes, toxic substances, etc.) observed during the inspection of the subject property or that he or she became aware of during the research involved in performing this appraisal. Unless otherwise stated in this appraisal report, the appraiser has no knowledge of any hidden or unapparent physical deficiencies or adverse conditions of the property (such as, but not limited to, needed repairs, deterioration, the presence of hazardous wastes, toxic substances, adverse environmental conditions, etc.) that would make the property less valuable, and has assumed that there are no such conditions and makes no guarantees or warranties, express or implied. The appraiser will not be responsible for any such conditions that do exist or for any engineering or testing that might be required to discover whether such conditions exist. Because the appraiser is not an expert in the field of environmental hazards, this appraisal report must not be considered as an environmental assessment of the property.
6. The appraiser has based his or her appraisal report and valuation conclusion for an appraisal that is subject to satisfactory completion, repairs, or alterations on the assumption that the completion, repairs, or alterations of the subject property will be performed in a professional manner.

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APPRAISER'S CERTIFICATION: The Appraiser certifies and agrees that:

1. I have, at a minimum, developed and reported this appraisal in accordance with the scope of work requirements stated in this appraisal report.
2. I performed a complete visual inspection of the interior and exterior areas of the subject property. I reported the condition of the improvements in factual, specific terms. I identified and reported the physical deficiencies that could affect the livability, soundness, or structural integrity of the property.
3. I performed this appraisal in accordance with the requirements of the Uniform Standards of Professional Appraisal Practice that were adopted and promulgated by the Appraisal Standards Board of The Appraisal Foundation and that were in place at the time this appraisal report was prepared.
4. I developed my opinion of the market value of the real property that is the subject of this report based on the sales comparison approach to value. I have adequate comparable market data to develop a reliable sales comparison approach for this appraisal assignment. I further certify that I considered the cost and income approaches to value but did not develop them, unless otherwise indicated in this report.
5. I researched, verified, analyzed, and reported on any current agreement for sale for the subject property, any offering for sale of the subject property in the twelve months prior to the effective date of this appraisal, and the prior sales of the subject property for a minimum of three years prior to the effective date of this appraisal, unless otherwise indicated in this report.
6. I researched, verified, analyzed, and reported on the prior sales of the comparable sales for a minimum of one year prior to the date of sale of the comparable sale, unless otherwise indicated in this report.
7. I selected and used comparable sales that are locationally, physically, and functionally the most similar to the subject property.
8. I have not used comparable sales that were the result of combining a land sale with the contract purchase price of a home that has been built or will be built on the land.
9. I have reported adjustments to the comparable sales that reflect the market's reaction to the differences between the subject property and the comparable sales.
10. I verified, from a disinterested source, all information in this report that was provided by parties who have a financial interest in the sale or financing of the subject property.
11. I have knowledge and experience in appraising this type of property in this market area.
12. I am aware of, and have access to, the necessary and appropriate public and private data sources, such as multiple listing services, tax assessment records, public land records and other such data sources for the area in which the property is located.
13. I obtained the information, estimates, and opinions furnished by other parties and expressed in this appraisal report from reliable sources that I believe to be true and correct.
14. I have taken into consideration the factors that have an impact on value with respect to the subject neighborhood, subject property, and the proximity of the subject property to adverse influences in the development of my opinion of market value. I have noted in this appraisal report any adverse conditions (such as, but not limited to, needed repairs, deterioration, the presence of hazardous wastes, toxic substances, adverse environmental conditions, etc.) observed during the inspection of the subject property or that I became aware of during the research involved in performing this appraisal. I have considered these adverse conditions in my analysis of the property value, and have reported on the effect of the conditions on the value and marketability of the subject property.
15. I have not knowingly withheld any significant information from this appraisal report and, to the best of my knowledge, all statements and information in this appraisal report are true and correct.
16. I stated in this appraisal report my own personal, unbiased, and professional analysis, opinions, and conclusions, which are subject only to the assumptions and limiting conditions in this appraisal report.
17. I have no present or prospective interest in the property that is the subject of this report, and I have no present or prospective personal interest or bias with respect to the participants in the transaction. I did not base, either partially or completely, my analysis and/or opinion of market value in this appraisal report on the race, color, religion, sex, age, marital status, handicap, familial status, or national origin of either the prospective owners or occupants of the subject property or of the present owners or occupants of the properties in the vicinity of the subject property or on any other basis prohibited by law.
18. My employment and/or compensation for performing this appraisal or any future or anticipated appraisals was not conditioned on any agreement or understanding, written or otherwise, that I would report (or present analysis supporting) a predetermined specific value, a predetermined minimum value, a range or direction in value, a value that favors the cause of any party, or the attainment of a specific result or occurrence of a specific subsequent event (such as approval of a pending mortgage loan application).
19. I personally prepared all conclusions and opinions about the real estate that were set forth in this appraisal report. If I relied on significant real property appraisal assistance from any individual or individuals in the performance of this appraisal or the preparation of this appraisal report, I have named such individual(s) and disclosed the specific tasks performed in this appraisal report. I certify that any individual so named is qualified to perform the tasks. I have not authorized anyone to make a change to any item in this appraisal report; therefore, any change made to this appraisal is unauthorized and I will take no responsibility for it.
20. I identified the lender/client in this appraisal report who is the individual, organization, or agent for the organization that ordered and will receive this appraisal report.

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- 21. The lender/client may disclose or distribute this appraisal report to: the borrower; another lender at the request of the borrower; the mortgagee or its successors and assigns; mortgage insurers; government sponsored enterprises; other secondary market participants; data collection or reporting services; professional appraisal organizations; any department, agency, or instrumentality of the United States; and any state, the District of Columbia, or other jurisdictions; without having to obtain the appraiser's or supervisory appraiser's (if applicable) consent. Such consent must be obtained before this appraisal report may be disclosed or distributed to any other party (including, but not limited to, the public through advertising, public relations, news, sales, or other media).
- 22. I am aware that any disclosure or distribution of this appraisal report by me or the lender/client may be subject to certain laws and regulations. Further, I am also subject to the provisions of the Uniform Standards of Professional Appraisal Practice that pertain to disclosure or distribution by me.
- 23. The borrower, another lender at the request of the borrower, the mortgagee or its successors and assigns, mortgage insurers, government sponsored enterprises, and other secondary market participants may rely on this appraisal report as part of any mortgage finance transaction that involves any one or more of these parties.
- 24. If this appraisal report was transmitted as an "electronic record" containing my "electronic signature," as those terms are defined in applicable federal and/or state laws (excluding audio and video recordings), or a facsimile transmission of this appraisal report containing a copy or representation of my signature, the appraisal report shall be as effective, enforceable and valid as if a paper version of this appraisal report were delivered containing my original hand written signature.
- 25. Any intentional or negligent misrepresentation(s) contained in this appraisal report may result in civil liability and/or criminal penalties including, but not limited to, fine or imprisonment or both under the provisions of Title 18, United States Code, Section 1001, et seq., or similar state laws.

SUPERVISORY APPRAISER'S CERTIFICATION: The Supervisory Appraiser certifies and agrees that:

- 1. I directly supervised the appraiser for this appraisal assignment, have read the appraisal report, and agree with the appraiser's analysis, opinions, statements, conclusions, and the appraiser's certification.
- 2. I accept full responsibility for the contents of this appraisal report including, but not limited to, the appraiser's analysis, opinions, statements, conclusions, and the appraiser's certification.
- 3. The appraiser identified in this appraisal report is either a sub-contractor or an employee of the supervisory appraiser (or the appraisal firm), is qualified to perform this appraisal, and is acceptable to perform this appraisal under the applicable state law.
- 4. This appraisal report complies with the Uniform Standards of Professional Appraisal Practice that were adopted and promulgated by the Appraisal Standards Board of The Appraisal Foundation and that were in place at the time this appraisal report was prepared.
- 5. If this appraisal report was transmitted as an "electronic record" containing my "electronic signature," as those terms are defined in applicable federal and/or state laws (excluding audio and video recordings), or a facsimile transmission of this appraisal report containing a copy or representation of my signature, the appraisal report shall be as effective, enforceable and valid as if a paper version of this appraisal report were delivered containing my original hand written signature.

APPRAISER

Signature _____
 Name _____
 Company Name _____
 Company Address _____
 Telephone Number _____
 Email Address _____
 Date of Signature and Report _____
 Effective Date of Appraisal _____
 State Certification # _____
 or State License # _____
 or Other (describe) _____ State # _____
 State _____
 Expiration Date of Certification or License _____

ADDRESS OF PROPERTY APPRAISED

APPRAISED VALUE OF SUBJECT PROPERTY \$ _____

LENDER/CLIENT

Name _____
 Company Name _____
 Company Address _____
 Email Address _____

SUPERVISORY APPRAISER (ONLY IF REQUIRED)

Signature _____
 Name _____
 Company Name _____
 Company Address _____
 Telephone Number _____
 Email Address _____
 Date of Signature _____
 State Certification # _____
 or State License # _____
 State _____
 Expiration Date of Certification or License _____

SUBJECT PROPERTY

- Did not inspect subject property
- Did inspect exterior of subject property from street
Date of Inspection _____
- Did inspect interior and exterior of subject property
Date of Inspection _____

COMPARABLE SALES

- Did not inspect exterior of comparable sales from street
- Did inspect exterior of comparable sales from street
Date of Inspection _____

THE PURCHASE CONTRACT

The Purchase Contract starts the home buying transaction. This contract is a legally binding agreement between a seller and a buyer and details the terms and conditions of a sale of property. A copy of the complete (original, counter offers, and all addenda if applicable) contract must be provided by the borrower. This document may also be referred to as the Sales Contract, Offer to Purchase, or Deposit Receipt Offer and Acceptance (DROA).

It is the loan processor's responsibility to review the Purchase Contract to verify that it contains the following:

Buyer's Name

The buyer's name must match the borrower's name.

Sellers Name

The seller's name matches the "owner of record" listed on the appraisal and title.

Purchase price and expected loan amount

The final agreed-to purchase price.

Earnest money deposit

The amount and name of the entity holding the deposit. The purchaser usually makes a deposit at the time of the agreement to show that the offer is being made in good faith. The deposit is held by a disinterested third-party. Be sure to determine if the deposit is in the form of cash or held as a promissory note from the buyer to the seller.

Contingencies

Terms that must be satisfied at or before the closing of the transaction (for example, sales of the buyer's previous residence).

Second liens

The dollar amount, terms, and name of the lender.

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Borrower's closing costs paid by the seller

These are costs paid on the borrower's behalf by a third party, including the seller, builder/developer, real estate agent, etc. The maximum allowable contributions that interested parties can make are limited to:

Owner Occupied:

- Maximum 3% of the lesser of the property's sales price or appraised value for LTVs over 90%
- Maximum 6% of the lesser of the property's sales price or appraised value for LTVs up to 90%

Second Homes:

- Maximum 6% based on the lesser of the property's sales price or appraised value for LTV's up to 90%

Investor:

- Maximum 2% based on the lesser of the property's sales price or appraised value for LTVs up to 90%

For underwriting purposes, the sales price of the property must be adjusted downward to reflect the amount of any contributions that exceed the above limitations. The LTV ratio is then calculated using the lower of the reduced purchase price or the appraised value.

Sales Concessions

The costs of any concessions that are in the form of personal property (such as furniture, decorator items, automobiles, club memberships, or other "giveaways") must always be deducted from the sales price of the property. The LTV ratio is then calculated using the lower of the reduced purchase price or the appraised value.

Fixtures that are, or are not, part of the sale

Fixtures (such as a built-in microwave) that are included in the purchase price of the property. Likewise, any fixtures that are on the property but are not included in the purchase price.

Repairs

All repairs that must be completed by the seller prior to the close of the transaction. Changes to the information must be initialed.

Closing date

The date the sales transaction is to be completed. This date must be in the future and have not expired.

Zoning

The property must be in compliance with zoning restrictions.

Property address

A legal description of the property which should conform with the legal description on the application, title report and appraisal.

Signature of the buyer and seller

All parties to the sales transaction must sign and date the Purchase Contract.

All counter offers and/or addenda to the Purchase Contract must be received.

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FLOOD INSURANCE

Flood insurance must be obtained if the property is located in a flood plain area. It is the lender's responsibility to notify the borrower in writing if the property is in a flood plain, and if federal disaster relief is available.

Borrowers purchasing homes in flood hazard areas must purchase flood insurance for the term of the loan. The amount of this insurance is equal to at least the outstanding principal on the loan or the maximum limit of insurance coverage, whichever is less. At closing, lenders require evidence of coverage on properties in flood plains.

Some communities participate in the National Flood Insurance Program. Lenders may not make VA or FHA loans for properties located in flood plains in nonparticipating communities. If the community has been flood-prone for at least a year and federal assistance is not available, a conventional loan may still be obtained, provided the borrower has been notified of these conditions.

Submitting to Underwriting



NOTES

INTRODUCTION

After all necessary verifications and documents have been gathered, the loan file is prepared for submission to underwriting.

When determining whether the credit risk of a loan application is a good one, underwriters typically use the four Cs of credit risk: Character, Capacity, Capital, and Collateral.

Character is the borrower's regard for obligation. Character can be assessed by looking at the borrower's credit history. Job stability may be another component of determining character.

Capacity is the borrower's ability to repay the loan based on debts and current income and income potential. Current debts are calculated off of the credit report. Current income is calculated off of the income verification documentation. Income potential is based on the borrower's experience, education, job skills and training.

Capital is represented by the borrower's current assets minus the current liabilities. The borrower should have adequate liquid assets to close the loan and have reserves for moving expenditures, new home-related costs and a "cushion" to sustain any short-term financial set-backs.

Collateral refers to the property. The appraisal should give insight as to whether the property is adequate collateral for the loan.

PREPARING THE LOAN FILE FOR UNDERWRITING

Final Loan Application

A final loan application is prepared on which the information must match that of the verifications and documents received. Compare all of the information on the independent verifications and documents gathered to the information on the initial loan application and update the information as needed.

If the loan was processed through an automated underwriting system (AUS) and any of the information on the final application is materially different than that on the initial application, the loan information should also be updated in the AUS.

Underwriting Summary

A summary sheet should be completed that summarizes the key information utilized in making the underwriting decision. Typically lenders use the Uniform Underwriting and Transmittal Summary form (Fannie Mae Form 1008/Freddie Mac Form 1077).

Recommendation to the Underwriter or Loan Committee

After the final loan application and the underwriting summary have been prepared, the key areas of information must be compared to the guidelines for the loan program under which the loan is being originated. The goal is for the loan to meet all of the guidelines for the loan program, however, that may not always be the case. In certain circumstances the risk may be outweighed by positive borrower and property characteristics. For example, if capacity is in question, compensating factors may exist such as job stability and good potential for increasing income.

The Commitment

If a letter of commitment is mailed to the borrower when the loan has been approved, it will outline the terms, time period with expiration date, and any other conditions of the commitment.

N O T E S

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Adverse Action

Consumer credit protection laws require that a borrower receive written notification if a mortgage loan application is rejected, which must indicate the reason for the rejection.

The written notification must inform the borrower that he or she was not discriminated against on the basis of race, color, religion, national origin, sex, marital status, age or income derived from a public assistance program. Federal law requires the originator to retain a copy of this document.

If the application was rejected due to an unacceptable credit history, the name and address of the credit provider must also be provided.

Glossary



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Adjustable Rate Mortgage (ARM)

A type of mortgage loan in which the interest rate is adjusted periodically on a pre-set schedule.

Amortization

Loan payment by equal periodic payments calculated to retire the debt at the end of a fixed time-period.

Annual Percentage Rate (APR)

The true rate of interest charged for the loan. It includes the loan's quoted interest rate as well as finance and service charges.

Appraisal Report

A report that uses relevant cost and market data to determine the fair and reasonable value of a property by a certified or licensed appraiser.

Buydown

An up-front sum is paid to the lender that is used to reduce the interest rate on the loan for either the term of the loan or for an initial, predetermined period. This is usually a sum of money from the buyer, seller, lender, or builder.

Capital

The wealth accumulated (money or property) by a person or business. The net worth is defined by the amount that assets exceed its liabilities.

Closing Costs

Fees paid by buyers or sellers to close the mortgage loan. Origination fees, discount points, and title insurance are examples of closing costs. These closing costs will be itemized on a closing statement.

Commitment Letter

A document from a lender pledging to reserve funds for a particular borrower, given certain conditions and terms.

Glossary

Commitment Fee	A fee collected by the lender to hold mortgage funds for the borrower until a specified date.
Condominium	A type of ownership in which only the interior space of each unit is individually owned. Common areas, including land and structure, are owned in common with other unit owners.
Cooperative Housing Unit (Co-op)	A type of ownership in which a corporation or business entity holds title to the property and grants the occupancy rights to particular units to shareholders. A proprietary lease is generally used to establish the individual's rights to the unit.
Co-signer	An individual or entity that signs a legal document on an equal basis with other signer(s). A co-signer is jointly liable with the other signers for repayment of debt on a promissory note.
Deed of Trust	A legal document that conveys title to real estate to a third party (the Trustee) until the owner has repaid the debt. A Deed of Trust accomplishes essentially the same purpose as a mortgage. A Deed of Trust is also known as a Trust Indenture or a Trust Deed.
Discount Points	Monies paid to the lender that increase the lender's yield on the mortgage and decrease the borrower's interest rate. Discount points may be paid by either the buyer or seller.
Down Payment	The sales price minus the loan amount.
Duplex	Two separate housing units that are contained in a single structure.

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Earnest Money

A deposit of money that is usually held in escrow until the loan closes to bind the sale of the property.

**Equal Credit
Opportunity Act
(ECOA)**

A federal law that helps ensure that lenders make credit available without discrimination based on race, color, religion, sex, marital status, age, national origin, or receipt of public assistance programs.

Escrow

A third-party arrangement where the escrow agent represents the buyer and seller to carry out instructions of both parties and assumes responsibility of handling all paperwork and distributing funds.

Fee Simple Estate

A type of real-estate ownership in which the owners are entitled to all the rights and privileges associated with their property without condition.

**Federal Home Loan
Mortgage Corporation**

Freddie Mac is a government-sponsored, stockholder-owned corporation similar to Fannie Mae. Freddie Mac purchases conventional loans and finances most of its mortgage purchases through the issuance of participation certificates (pass-through mortgage-backed securities).

**Federal National
Mortgage Association**

Fannie Mae is a government-sponsored, stockholder-owned corporation that supports the secondary mortgage market by purchasing, securitizing, and selling different types of loans including conventional, FHA, and VA loans.

Fixed Rate Mortgage

A mortgage loan in which the interest rate is fixed for the entire term of the loan.

Glossary

**Government National
Mortgage Association**

Ginnie Mae (GNMA) is a government agency that is responsible for administering the special assistance loan program that supports the need for affordable housing through FHA, VA, and Farmer's Home Administration loan programs. GNMA also encourages the movement of money to the mortgage market by pooling mortgages together and selling privately issued securities carrying the GNMA guaranty.

Gross Income

Total income before taxes and any other expenses have been deducted.

Hazard Insurance

A contract between the buyer and insurer to cover property loss due to hazard (fire, hail damage, etc.). The buyer pays the insurer a premium, and the insurer assumes the risk of loss for covered hazards up to the coverage limits.

**Homeowners'
Association**

A group of homeowners in a particular community or development who oversee and maintain community facilities.

Insurable Title

Unencumbered and clear title to a property that a title company is willing to insure.

Interest

Money paid for the use of loan proceeds. Usually shown as an annual interest rate.

Joint Ownership

Ownership by two or more parties. Also known as concurrent ownership.

Joint Tenancy

A type of ownership by two or more parties who share equal rights in the property. The survivor(s) continue to hold these rights upon the death of one or more of the joint tenants.

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Lien	A legal claim of one party on the property of another as security for a debt.
Loan-to-Value (LTV)	A percentage that is obtained by dividing the loan amount by the lesser of the appraised value or the sales price.
Mortgage Insurance Premium (MIP)	Amount to secure mortgage insurance coverage. Payment may be a single premium amount that can be added to the loan amount or an initial premium paid at or after closing plus renewal premiums.
Mortgage	A legal document that pledges property as collateral for the repayment of a loan.
Negative Amortization	A type of mortgage loan in which the payments do not fully cover the monthly interest due. The interest not covered by the payment is added to the principal balance, thus increasing the principal balance.
Non-Conforming Mortgage Loan	A mortgage loan that does not meet all eligibility requirements of Fannie Mae or Freddie Mac.
Origination Fee	The fee charged by a lender or mortgage loan originator to cover processing, credit checks, and document preparation.
PITI	Principal, interest, taxes, insurance; a borrower's total monthly housing payment.
Principal	The amount of debt, exclusive of accrued interest, remaining on a loan. It will represent the total amount of the loan as it appears on the promissory note.

Glossary

Survey	A scientific measurement of land that shows the property's dimensions, location, and lines of possession. It may also show physical features, such as grades and contours, easements, and improvements. The lender requires that the survey be done by a registered land surveyor before closing.
Tenancy in Common	A form of ownership in which two or more parties each owns a separate interest in the same property. If one owner dies, his or her interest in the property passes to his or her heirs.
Tenants by the Entirety	Ownership by husband and wife who share equal rights to the undivided interest of the property. In the event of death of one, the survivor owns the property without probate.
Term	The duration of the mortgage loan, number of months from first payment to the final due date of the loan.
Title	A legal document that serves to evidence the right of ownership in property.
Townhouse	A single-family dwelling that shares exterior limits with other units (also referred to as a rowhouse). Title to the unit and underlying land is held individually by the owner of each unit.
Underwriting	The analysis of a mortgage loan to determine risk using factors that are predictive of risk. The underwriting assessment is based on information relating to the borrower's ability to pay, the property's collateral value, the borrower's willingness to pay, and the rate and terms of the loan.

NOTES

