

Underwriting Reminders for Loan Prospector® Caution Risk Class Mortgages



This document provides helpful reminders for underwriting credit and capacity for mortgages receiving a Caution risk class from Loan Prospector. As always, individuals responsible for making the final lending decision should ensure that all requirements in the *Single-Family Seller/Service Guide* (Guide), as well as any corporate guidelines and policies, are met.

All Caution Mortgages (Guide Chapter 37)

Reconcile any material discrepancies between loan application and the credit report used to document the file.

Significant Inaccurate Information: Manually underwrite as a Non-Loan Prospector mortgage, including:

- Disregard the inaccurate credit score and use an accurate score, if available.
- Provide written documentation in the mortgage file from the repository (or creditor) reporting the inaccurate information affirming error(s).
- Deliver '**FICO unusable/inaccurate**' (or 'I') in Credit Score Type (CST) field on delivery Form 11 (or Form 13SF) to note inaccurate credit (avoids fee).

Caution with A-minus eligible message: Loan Prospector has determined that the credit reputation and ratios are acceptable, subject to certain manual eligibility checks. A postsettlement delivery fee applies. (Guide Chapter C33)

Eligibility:

- Must receive the purchase eligibility message "500 Freddie Mac A-minus eligible" from Loan Prospector.
- Must be a conventional mortgage (other than 5-year Balloon/Reset, Prepayment Protection or Initial Interest mortgages)
- Assuming the mortgage meets all manual eligibility checks, then the mortgage must be delivered as an A-minus mortgage with the appropriate delivery fee. See Guide Chapter C33 for exceptions.

Manual checks:

- If not adequately shown on the credit report, directly verify payment history for all mortgage debt for the most recent 12 months.
- During the most recent 12 months, if any Borrower was 30 days or more delinquent more than once, or 60 days or more delinquent, on any directly verified mortgage or combination of directly verified mortgages, the mortgage is ineligible for delivery to Freddie Mac.
- If the subject property is an investment property, and the Borrower owns more than one financed property, the mortgage is not A-minus eligible.

Caution without A-minus eligible message: Manually underwrite all aspects of Borrower credit, capacity and collateral. The Seller is responsible for demonstrating an acceptable credit reputation. A postsettlement delivery fee applies. (Guide Chapter 37)

Minimum credit history: When the Caution is due to insufficient credit, the credit history must contain the following for at least one Borrower whose income/assets are used to qualify:

- At least three tradelines, whether or not on the credit report, or at least four noncredit payment references (or combination of tradelines and noncredit payment references) that all have been opened for at least 12-months with no history of late payments.

Deliver '**FICO unusable/insufficient**' (or 'T') in Credit Score Type (CST) field on delivery Form 11 (or Form 13SF) to note insufficient credit for a Loan Prospector assessment.

Derogatory Credit: Determine if significant derogatory credit is due to Extenuating Circumstances or Financial Mismanagement, then document according to Guide Section 37.7. For all area(s) of risk identified in the Credit Risk Comments and Repository Reason Codes, sufficient offsets *not already assessed by Loan Prospector* are required. (Guide Chapter 37)

Note: Vertical revision bars " | " are used in the margin of this quick reference to highlight new requirements and significant changes

Additional Derogatory Credit Requirements		
Topic	Extenuating Circumstances	Financial Mismanagement
Minimum Indicator Score	No minimum for extenuating circumstances. However, the Mortgage must meet the Minimum Indicator Score requirements for manually underwritten mortgages. Refer to Guide Exhibit 25, Mortgages with Risk Class and/or Minimum Indicator Score Requirements.	Each Borrower with significant adverse or derogatory credit information caused by financial mismanagement must have an Underwriting Score of 680. In addition, Minimum Indicator Score requirements for manually underwritten mortgages also apply. Refer to Guide Exhibit 25, Mortgages with Risk Class and/or Minimum Indicator Score Requirements.
Payment Reference Specifics	<ul style="list-style-type: none"> ▪ If the derogatory credit included tradeline credit, then the Borrower is expected to re-establish credit with at least one tradeline credit reference for a minimum of 24 months, or 36 months if the derogatory credit involved a foreclosure or bankruptcy. ▪ If the derogatory credit was on non-credit payment references, then either tradeline or non-credit payment references are acceptable to show reestablishment of credit. ▪ At least one of the minimum payment references required must have been open for the most recent 24 months, and all must have been active within the most recent 24 months and show no late payments. <ul style="list-style-type: none"> ▪ The payment references may include an account opened prior to the significant adverse or derogatory information. ▪ At least one payment reference must be housing related. 	
Reestablished Credit History	<p>Must have reestablished an acceptable credit reputation for a period of at least:</p> <ul style="list-style-type: none"> ▪ 36 months for a previous foreclosure* ▪ 36 months after the discharge or dismissal of a bankruptcy when the Borrower has filed more than one bankruptcy petition in the past seven years ▪ 24 months after the discharge or dismissal of a bankruptcy, short payoff related to a delinquent mortgage obligation, deed-in-lieu of foreclosure** or other significant adverse or derogatory credit information 	<p>Must have reestablished an acceptable credit reputation for a period of at least:</p> <ul style="list-style-type: none"> ▪ 60 months for a previous foreclosure* ▪ 60 months when the Borrower has filed more than one bankruptcy petition in the past seven years ▪ 48 months after the discharge or dismissal date of a bankruptcy, other than a Chapter 13 bankruptcy with discharge date, or conveyance of a deed-in-lieu of foreclosure** ▪ 24 months after the discharge date of a Chapter 13 bankruptcy ▪ 48 months for a short payoff related to a delinquent Mortgage obligation ▪ 48 months for all other significant adverse or derogatory credit information
<p>*For a previous foreclosure, the Mortgage must either be a purchase transaction secured by a Primary Residence with a maximum LTV/TLTV/HTLTV of 90%, or a “no cash-out” refinance Mortgage meeting the requirements of Guide Chapter 24.</p> <p>**For a previous conveyance of a deed-in-lieu of foreclosure, the Mortgage must either be a purchase transaction with a maximum LTV/TLTV/HTLTV ratio of 90%, or a “no cash-out” or cash-out refinance Mortgage meeting the requirements of Guide Chapter 24.</p>		

Topic	Extenuating Circumstances	Financial Mismanagement
Credit History (cont.)	<p>Documentation must support:</p> <ul style="list-style-type: none"> ▪ A written statement from the Borrower regarding the cause of the financial difficulties to outside factors beyond the Borrower's control ▪ Third-party documentation confirming the events were beyond the Borrower's control or an isolated occurrence ▪ A minimum of 3 tradelines required with a minimum 24 month history ▪ No evidence of an unacceptable credit reputation prior to the extenuating circumstances ▪ Borrower credit is current (not currently delinquent) ▪ Borrower has reestablished an acceptable credit reputation from evidence on credit report and other credit documentation ▪ No new public records for bankruptcy, foreclosure, unpaid judgments, or collections ▪ No payments 60 or more days past due ▪ No more than two payments 30 days past due ▪ No housing payments past due ▪ No multiple revolving accounts with high balance-to-limits or high overall use of revolving credit 	<p>Documentation must support:</p> <ul style="list-style-type: none"> ▪ A minimum of 3 tradelines are required with a minimum 24 month history ▪ Borrower credit is current (not currently delinquent) ▪ Borrower has reestablished an acceptable credit reputation from evidence on credit report and other credit documentation ▪ No new public records for bankruptcy, foreclosure, unpaid judgments, or collections ▪ No payments 60 or more days past due ▪ No more than two payments 30 days past due ▪ No housing payments past due ▪ No multiple revolving accounts with high balance-to-limits or high overall use of revolving credit
Underwriting Analysis (Form 1077)	<p>The Seller must explain on the Form 1077 (or other document in the file) the rationale supporting its determination that:</p> <ul style="list-style-type: none"> ▪ The events causing the financial difficulties were beyond the Borrower's control, are not ongoing, and are unlikely to recur ▪ An acceptable credit reputation has been reestablished <p>Freddie Mac also recommends that you provide calculations for significant qualifying data (income, assets, debts, reserves) and the reasoning for your lending decision.</p>	<p>The Seller must explain on the Form 1077 (or other document in the file) the rationale supporting its determination that:</p> <ul style="list-style-type: none"> ▪ Financial mismanagement is unlikely to recur ▪ An acceptable credit reputation has been reestablished. <p>Making a case that the Borrower is sufficiently willing to repay obligations when significant derogatory information was caused by financial mismanagement is very difficult. It will take a longer and more convincing reestablishment period to overcome derogatory information caused by financial mismanagement.</p> <p>Freddie Mac also recommends that you provide calculations for significant qualifying data (income, assets, debts, reserves) and the reasoning for your lending decision.</p>

Capacity: You are responsible for demonstrating acceptable capacity, including ensuring that the following requirements related to debt ratios are met (Guide Chapter 37).

Unacceptable Capacity

Capacity is unacceptable for the Caution risk class whenever the transaction is:

- A cash-out refinance, and
- At least one Credit Risk Comment related to the monthly debt payment-to-income ratio appears on the Full Feedback Certificate

Ratios

When either of the ratio guidelines (28%/36%) is exceeded, the Seller must prepare and retain in the mortgage file a written explanation justifying its underwriting decision. (Guide Sections 37.15, 37.16)

The total-debt-to-income ratio must not exceed 45%. When the Borrower's monthly debt payment-to-income ratio exceeds 36%, the Seller must document in the file the justification for the higher qualifying ratio. (Guide Section 37.16)

Related Resources

- To access related information regarding quality control resources and fraud prevention, visit <http://www.FreddieMac.com/dgtg>.
- For a comprehensive guide to underwriting loans using Loan Prospector, please refer to the Freddie Mac *Single-Family Seller/Service Guide*.

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