

Underwriting Reminders for Loan Product Advisor®

Caution Risk Class Mortgages



This document provides helpful reminders for underwriting credit and capacity for Mortgages receiving a Caution risk class from Loan Product Advisor. 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 Topics 5100 through 5500)	
Reconcile any material discrepancies between loan application and the credit report used to document the file. When the credit report indicates that a creditor has made an inquiry within the previous 120-day period, you must determine if additional credit was granted. If additional credit was granted, verification of the debt must be obtained and the debt must be considered when qualifying the Borrower subject to the requirements in Sections 5401.2, Monthly debt payment-to-income ratio. (See Guide Section 5202.6)	
Caution with A-minus eligible message: Loan Product Advisor has determined that the credit reputation and ratios are acceptable, subject to certain manual eligibility checks. A postsettlement delivery fee applies. (See Guide Sections 4201.16 and 5101.9)	
Eligibility	<ul style="list-style-type: none"> Must receive the purchase eligibility message “500 Freddie Mac A-minus eligible” from Loan Product Advisor. Must be a conventional Mortgage Assuming the Mortgage meets all manual eligibility checks, the Mortgage must be delivered as an A-minus Mortgage with the appropriate delivery fee. See Guide Section 5101.9 for exceptions.
Manual Checks	<ul style="list-style-type: none"> 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 – Borrower Credit: Manually underwrite in accordance with Guide Sections 5102.2(b), 5202.3, 5202.4 and 5202.5. A postsettlement delivery fee applies.	
Due to Credit	<p>The Seller is responsible for demonstrating an acceptable credit reputation. When there are at least two Feedback Certificate messages related to nonpayment of obligations, the Seller must presume the derogatory information is significant. The Seller must document:</p> <ul style="list-style-type: none"> Extenuating circumstances, or conclude that the difficulties were due to financial mismanagement. Offsetting factors (<i>factors not already assessed by Loan Product Advisor</i>) to ensure that the Mortgage is acceptable for the factors identified in the <i>Credit Risk Comments</i> and <i>Repository Reason Code Comments</i> sections of the Feedback Certificate.
Significant Inaccurate Information Requirements	<p>If the Seller determines the repository file used to create the selected Borrower's credit report contains significant inaccurate credit information, the Seller must consider the Loan Product Advisor assessment invalid and manually underwrite the Mortgage as a Non-Loan Product Advisor Mortgage (see Section 5203.2), and:</p> <ul style="list-style-type: none"> Disregard the inaccurate credit score and use an accurate score, if available. Explain this decision on Form 1077, Uniform Underwriting and Transmittal Summary, or another document in the Mortgage file. Provide written documentation in the Mortgage file from the repository (or creditor) reporting the inaccurate information affirming error(s). Deliver ‘Significant Errors Score’ in the ULDD Data Point <i>Credit Score Impairment Type</i>

Caution without A-minus eligible message – Borrower Credit, continued

Evaluating Credit Reputation

The following subsections under Borrower Credit are Significant Derogatory Credit Requirements and based on Extenuating Circumstances and/or Financial Mismanagement requirements.

<i>Extenuating Circumstances</i>	<i>Financial Mismanagement</i>
<p>Freddie Mac considers an extenuating circumstance to be a nonrecurring or isolated circumstance, or set of circumstances that:</p> <ul style="list-style-type: none"> ▪ Was beyond the Borrower's control, ▪ Significantly reduced income and/or increased expenses, and ▪ Rendered the Borrower unable to repay obligations as agreed, resulting in significant adverse or derogatory credit information. <p>In addition, if the Borrower's credit history includes significant adverse or derogatory credit within the most recent two years, even if it was caused by extenuating circumstances, the Borrower's credit reputation cannot be considered acceptable.</p> <p>When the Seller uses extenuating circumstances to justify the Borrower's credit reputation is acceptable despite significant adverse or derogatory information, the Seller must confirm the extenuating circumstances and that the Borrower has reestablished an acceptable credit reputation.</p> <p>If the Seller cannot obtain third-party documentation confirming the extenuating circumstances and reestablishment of credit, it cannot consider the extenuating circumstance as an acceptable offset to significant adverse or derogatory credit information.</p>	<p>If the Seller is unable to document extenuating circumstances in accordance with Freddie Mac's requirements, then it must conclude the problems were due to financial mismanagement.</p>

Minimum Indicator Score

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.

Caution *without* A-minus eligible message – Borrower Credit, *continued*

<p>Recovery Time Periods for Reestablishing Credit</p>	<p><i>Extenuating Circumstances</i></p>	<p><i>Financial Mismanagement</i></p>
	<p>Must have reestablished an acceptable credit reputation for a period of at least:</p> <ul style="list-style-type: none"> ▪ 36 months from the completion date as reported on the credit report for a previous foreclosure* ▪ 24 months from the execution date of a deed-in-lieu of foreclosure* ▪ 24 months from the completion date of any short sale* ▪ 24 months after the discharge or dismissal of a bankruptcy, ▪ 24 months for all 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"> ▪ 84 months from the completion date as reported on the credit report for a previous foreclosure ▪ 48 months from execution date of a deed-in-lieu of foreclosure* ▪ 48 months from the completion date for a short sale* ▪ 48 months after the discharge or dismissal date of a bankruptcy, other than a Chapter 13 bankruptcy ▪ 24 months after the discharge date of a Chapter 13 bankruptcy, or 48 months after the dismissal date of a Chapter 13 bankruptcy ▪ 60 months from the most recent discharge or dismissal date when the Borrower has filed more than one bankruptcy petition in the past seven years ▪ 48 months for all other significant adverse or derogatory credit information
	<p>*For a previous foreclosure, deed-in-lieu of foreclosure or short sale within the last seven years, the Mortgage must be either:</p> <ul style="list-style-type: none"> ▪ A purchase transaction secured by a Primary Residence with a maximum LTV/TLTV/HTLTV ratio of the lesser of 90% or the maximum LTV/TLTV/HTLTV ratio for the transaction, or ▪ A “no cash-out” refinance Mortgage meeting the requirements of Guide Chapter 4301. 	<p>*For a previous deed-in-lieu of foreclosure or short sale within the last seven years, the Mortgage must be either:</p> <ul style="list-style-type: none"> ▪ A purchase transaction secured by a Primary Residence with a maximum LTV/TLTV/HTLTV ratio of the lesser of 90% or the maximum LTV/TLTV/HTLTV ratio for the transaction, or ▪ A “no cash-out” refinance Mortgage meeting the requirements of Guide Chapter 4301.
	<p>Mortgage file must contain:</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 that the events related by the Borrower in the explanation were an isolated occurrence and significantly reduced the Borrower’s income and/or increased expenses and rendered the Borrower unable to repay as agreed ▪ Evidence on the credit report and other documentation in the Mortgage file of the length of time since completion of the significant derogatory event to the date of application and of completion of the recovery time period requirements. 	<p>Mortgage file must contain:</p> <ul style="list-style-type: none"> ▪ Evidence the borrower has reestablished an acceptable credit reputation as required in Topics 5100 and 5200 for Manually Underwritten Mortgages ▪ Evidence on the credit report and other credit documentation in the Mortgage file of the length of time since completion of the significant derogatory event to the date of the application, and of completion of the recovery time period requirements.

Caution without A-minus eligible message – Borrower Credit, continued

Underwriting Analysis (Form 1077)	<i>Extenuating Circumstances</i>	<i>Financial Mismanagement</i>
	<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>
Caution without the A-minus message – Borrower Capacity: Manually underwrite in accordance with Guide Topics 5100 through 5500. A postsettlement delivery fee applies.		
Due to Capacity	You are responsible for demonstrating acceptable capacity, including when the Feedback Certificate contains credit risk comments related to capacity.	
Compensating Factors	<ul style="list-style-type: none"> ▪ The Seller may not use information already considered by Loan Product Advisor to determine that capacity is acceptable. See Guide Section 5102.2(b)(ii) for factors considered by Loan Product Advisor. ▪ Factors not considered by Loan Product Advisor, such as the existence of verified income that is not included in the submission or energy savings from an energy-efficient property (see Guide Section 5401.1), may be used by the Seller in making a case that capacity is acceptable. 	
Unacceptable Capacity	<p>The Seller must presume the Borrower's capacity to repay is not acceptable when the following conditions exist (see Guide Section 5102.2(b)(i)):</p> <ul style="list-style-type: none"> ▪ The Mortgage is a Loan Product Advisor Caution Mortgage, and ▪ The transaction is a cash-out refinance, and ▪ At least one Credit Risk Comment related to the monthly debt payment-to-income ratio is returned on the Feedback Certificate 	
Ratios	<ul style="list-style-type: none"> ▪ When either of the ratio guidelines (28% monthly housing expense-to-income ratio and 36% monthly debt payment-to-income ratio) is exceeded, the Seller must prepare and retain in the Mortgage file a written explanation justifying its underwriting decision. (See Guide Sections 5102.2(b)(i), 5401.1, 5401.2(c)) <p>Note: The total debt-to-income ratio must not exceed 45%.</p>	

This document is not a replacement or substitute for the information found in the Single-Family Seller/Servicer Guide and/or terms of your Master Agreement and/or other Pricing Identifier Terms.

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