

**FHA requires an application to be manually underwritten when either TOTAL Scorecard returns a Refer determination or a Mandatory Downgrade condition is present with an Accept determination.**

Topic	Guideline
<p><b>Mandatory Manual Downgrade Conditions</b> <i>4000.11A 4 a v</i></p>	<ul style="list-style-type: none"> <li>• The mortgage file contains information or documentation that cannot be entered into or evaluated by TOTAL Mortgage Scorecard;</li> <li>• Additional information, not considered in the AUS recommendation affects the overall insurability of the Mortgage;</li> <li>• The Borrower has \$1,000 or more collectively in Disputed Derogatory Credit Accounts;</li> <li>• The date of the Borrower’s bankruptcy discharge as reflected on bankruptcy documents is within two years from the date of case number assignment;</li> <li>• The case number assignment date is within three years of the date of the transfer of title through a Pre-Foreclosure Sale (Short Sale);</li> <li>• The case number assignment date is within three years of the date of the transfer of title through a foreclosure sale;</li> <li>• The case number assignment date is within three years of the date of the transfer of title through a Deed-in-Lieu (DIL) of foreclosure;</li> <li>• The mortgage payment history, for any mortgage trade line reported on the credit report used to score the application reflects the following:             <ul style="list-style-type: none"> <li>○ Purchase and No Cash-Out Refinance                 <ul style="list-style-type: none"> <li>▪ During the most recent 12 months:                     <ul style="list-style-type: none"> <li>▪ three or more late payments of greater than 30 Days;</li> <li>▪ one or more late payments of 60 Days plus one or more 30-Day late payments; or</li> <li>▪ one payment greater than 90 Days late.</li> </ul> </li> </ul> </li> <li>○ Cash-Out Refinance Transactions                 <ul style="list-style-type: none"> <li>▪ a current delinquency; or</li> <li>▪ any delinquency within 12 months of the case number assignment date.</li> </ul> </li> </ul> <p>Any mortgage that has been modified must utilize the payment history in accordance with the modification agreement for the time period of modification in determining late housing payments.</p> </li> <li>• The Borrower has undisclosed mortgage debt with a history that reflects:             <ul style="list-style-type: none"> <li>○ a current delinquency;</li> <li>○ any delinquency within 12 months of the case number assignment date; or</li> <li>○ more than two 30 Day late payments within 24 months of the case number assignment date.</li> </ul> <p>A mortgage that has been modified must utilize the payment history in accordance with the modification agreement for the time period of modification in determining late Mortgage Payments. ; or</p> </li> <li>• Business income shows a greater than 20 percent decline over the analysis period.</li> </ul>
<p><b>Reserves</b> <i>4000.11A.5.c.i.</i></p>	<p><b>1-2 Unit Properties:</b> 1 month PITI  <b>3-4 Unit Properties:</b> 3 months PITI (also required for TOTAL approved loans)</p> <p>Reserves do not include:</p> <ul style="list-style-type: none"> <li>• the amount of cash taken at settlement in cash-out transactions;</li> <li>• incidental cash received at settlement in other loan transactions;</li> <li>• gift funds;</li> <li>• equity in another Property; or</li> <li>• borrowed funds from any source.</li> </ul>

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<p><b>Ratios and Compensating Factors</b> <i>4000.11.A.5.d.xiii</i></p>	<p><b>Lowest Minimum Decision Credit Score</b></p>	<p><b>Maximum Qualifying Ratios (%)</b></p>	<p><b>Acceptable Compensating Factors<sup>2</sup></b></p>
	<p>500-579 or No Credit Score<sup>1</sup></p>	<p>31/43</p>	<p>Not applicable. Borrowers with Minimum Decision Credit Scores below 580, or with no credit score may not exceed 31/43 ratios. Energy Efficient Homes may have stretch ratios of 33/45.</p>
	<p>580 and above</p>	<p>31/43</p>	<p>No compensating factors required. Energy Efficient Homes may have stretch ratios of 33/45.</p>
	<p>580 and above</p>	<p>37/47</p>	<p>One of the following:</p> <ul style="list-style-type: none"> <li>• verified and documented cash Reserves;</li> <li>• minimal increase in housing payment; or</li> <li>• residual income<sup>3</sup>.</li> </ul>
	<p>580 and above</p>	<p>40/40</p>	<p>No discretionary debt.</p>
	<p>580 and above</p>	<p>40/50</p>	<p>Two of the following:</p> <ul style="list-style-type: none"> <li>• verified and documented cash Reserves;</li> <li>• minimal increase in housing payment;</li> <li>• significant additional income not reflected in Effective Income; and/or</li> <li>• residual income<sup>3</sup>.</li> </ul>
<p><sup>1</sup> Non-occupant borrower income is not eligible for calculation purposes for borrowers with no credit score.  <sup>2</sup> For compensating factor documentation see 4000.11.A.5.d.ix  <sup>3</sup> See calculation instructions on page 3 and 4</p>			
<p><b>Non-Traditional Credit</b> <i>4000.11.A.5.a.ii.(B)</i></p>	<p>Borrowers with no credit score must have 3 verified credit references including at least one of the following:</p> <ul style="list-style-type: none"> <li>• rental housing payments (subject to independent verification if the borrower is a renter);</li> <li>• telephone service; or</li> <li>• utility company reference (if not included in the rental housing payment), including: <ul style="list-style-type: none"> <li>○ gas;</li> <li>○ electricity;</li> <li>○ water;</li> <li>○ television service; or</li> <li>○ Internet service.</li> </ul> </li> </ul> <p>If the lender cannot obtain all three credit references from the list above, then the following sources of unreported recurring debt may be used:</p> <ul style="list-style-type: none"> <li>• insurance premiums not payroll deducted (for example, medical, auto, life, renter's insurance);</li> <li>• payment to child care providers made to businesses that provide such services;</li> <li>• school tuition;</li> <li>• retail store credit cards (for example, from department, furniture, appliance stores, or specialty stores);</li> <li>• rent-to-own (for example, furniture, appliances);</li> <li>• payment of that part of medical bills not covered by insurance;</li> <li>• a documented 12-month history of savings evidenced by regular deposits resulting in an increased balance to the account that: <ul style="list-style-type: none"> <li>○ were made at least quarterly;</li> </ul> </li> </ul>		

Topic	Guideline
<b>Non-Traditional Credit</b> <i>(cont'd)</i>	<ul style="list-style-type: none"> <li>○ were not payroll deducted, and;</li> <li>○ caused no insufficient funds (NSF) checks;</li> <li>● an automobile lease;</li> <li>● a personal loan from an individual with repayment terms in writing and supported by canceled checks to document the payments; or</li> <li>● a documented 12-month history of payment by the borrower on an account for which the borrower is an authorized user.</li> </ul>
<b>Acceptable Payment and Credit History for Non-Traditional Credit</b> <i>4000.11.A.5.a.iii.(B)</i>	<ul style="list-style-type: none"> <li>● All housing and installment debt payments on time for the previous 12 months and has no more than two 30-Day late mortgage payments or installment payments in the previous 24 months.</li> <li>● No major derogatory credit on revolving accounts in the previous 12 months. (Major derogatory credit on revolving accounts must include any payments made more than 90 days after the due date, or three or more payments more than 60 Days after the due date.)</li> </ul>

## Instructions for Residual Income as a Compensating Factor

Residual income may be used as a compensating factor when it meets or exceeds the stated amounts in the table below. Note that all household members must be counted for 'family size' except for individuals who are fully supported from a verified source of income not included in the effective income of the loan.

Table of Residual Incomes by Region For loan amounts of \$79,999 and below				
Family Size	Northeast	Midwest	South	West
1	\$390	\$382	\$382	\$425
2	\$654	\$641	\$641	\$713
3	\$788	\$772	\$772	\$859
4	\$888	\$868	\$868	\$967
5	\$921	\$902	\$902	\$1,004
over 5	Add \$75 for each additional member up to a family of seven.			
Table of Residual Incomes by Region For loan amounts of \$80,000 and above				
Family Size	Northeast	Midwest	South	West
1	\$450	\$441	\$441	\$491
2	\$755	\$738	\$738	\$823
3	\$909	\$889	\$889	\$990
4	\$1,025	\$1,003	\$1,003	\$1,117
5	\$1,062	\$1,039	\$1,039	\$1,158
over 5	Add \$80 for each additional member up to a family of seven			

Use the table below to determine the appropriate region to use in the table above.

Region	States
Northeast	CT, MA, ME, NH, NJ, NY, PA, RI, VT
Midwest	IA, IL, IN, KS, MI, MN, MO, ND, NE, OH, SD, WI
South	AL, AR, DC, DE, FL, GA, KY, LA, MD, MS, NC, OK, PR, SC, TN, TX, VA, VI, WV
West	AK, AZ, CA, CO, HI, ID, MT, NM, NV, OR, UT, WA, WY

## Residual Income Calculation

### Gross Monthly Income<sup>1 2</sup>

- State income taxes<sup>3</sup>
- Federal income taxes<sup>3</sup>
- Municipal or other taxes<sup>3</sup>
- Retirement deductions and/or Social Security deductions
- Total monthly housing payment
- Estimated maintenance and utilities<sup>4</sup>
- Job related expense (e.g., child care)<sup>5</sup>
- = **Monthly Residual Income for Family Support**

<sup>1</sup> Income from occupying borrowers only

<sup>2</sup> Non-taxable income may not be grossed up

<sup>3</sup> Federal and state taxes must be used to determine appropriate deductions or paystub if taxes not available

<sup>4</sup> Multiply total living area (sq ft) x .14

<sup>5</sup> Child care letter is not required (as it is for VA) and should not be requested

## Reducing the Residual Income Figures

Reduce the residual income figure (from the above tables) by five percent if:

- the borrower(s) is an active duty or retired serviceperson, or
- there is a clear indication that a borrower will receive the benefits resulting from use of military-based facilities located near the property.

Examples include Guard and Reserve military retirees, 100 percent disabled Veterans and their family members, or Medal of Honor recipients.