

For Arch MI and Arch MI for Credit Unions

Conquer the Components

Understanding the Aspects
of a Loan File

a MORTGAGE SKILLS course



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Objectives

Overview of The Three Cs, including:

- Income/Employment.
- Assets/Reserves.
- Ratios.

Understand What Makes up a Credit Score.

Fundamentals of Mortgage Risk.

The Three Cs



What Are the Three Cs?

Capacity

Can the borrower pay?

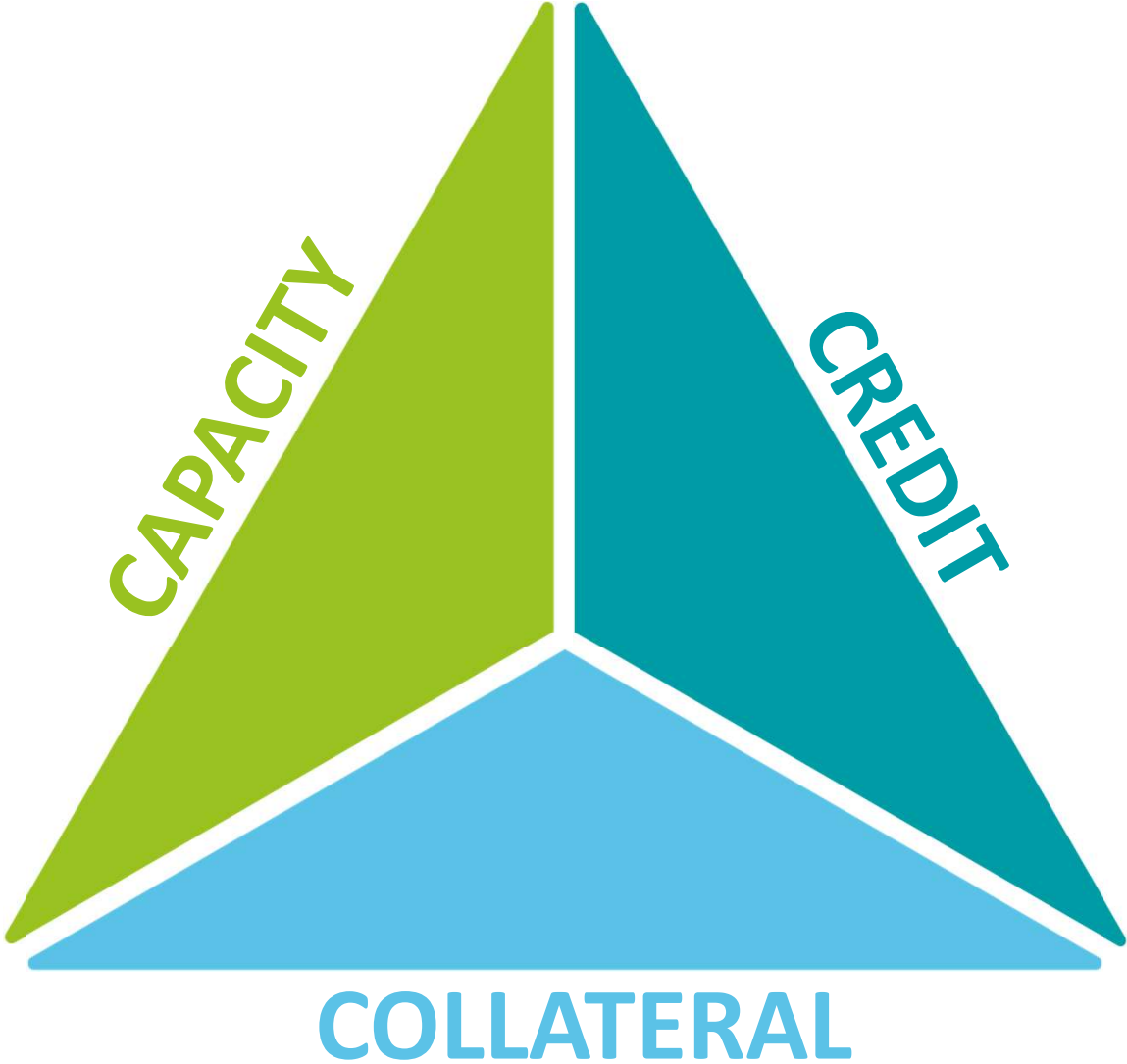
Credit

Will the borrower pay?

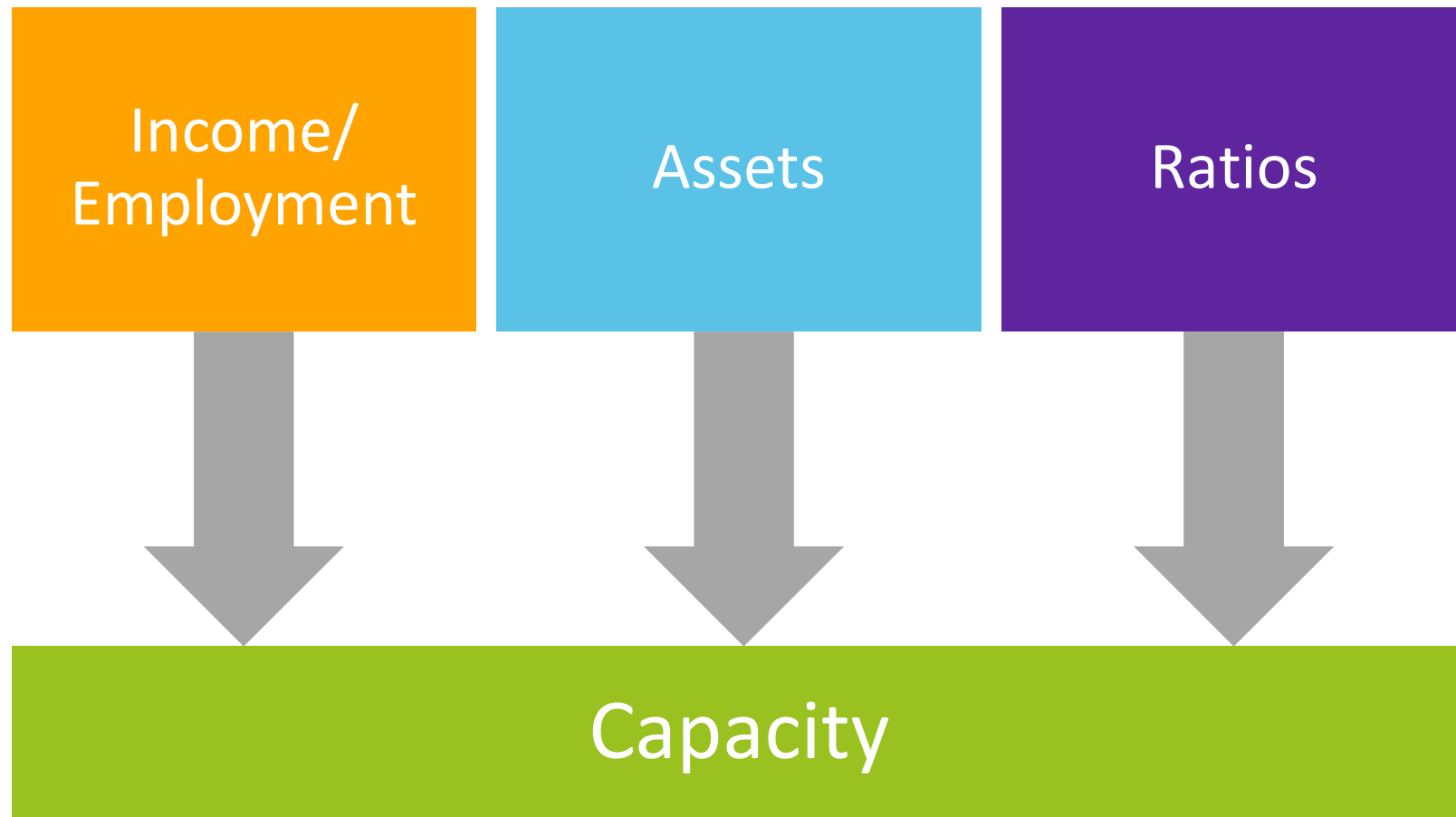
Collateral

What if the borrower doesn't pay?

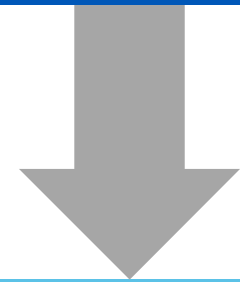
The Three Cs



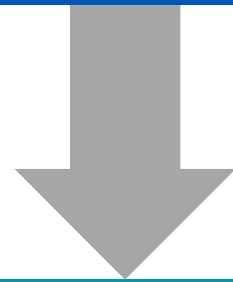
The Three Cs



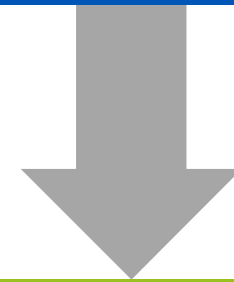
Income/Employment



Stability



Ability

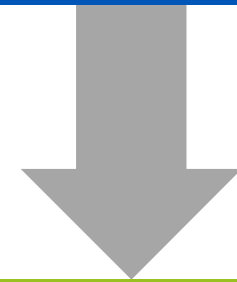
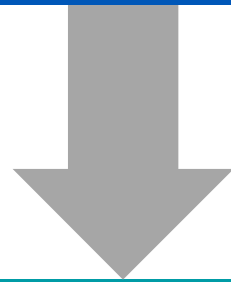
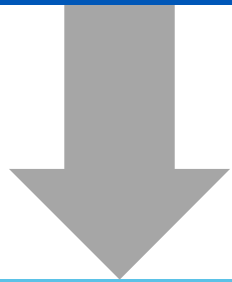


Dependability

Capacity — Income/Employment



Income/Employment



Stability
= PAST

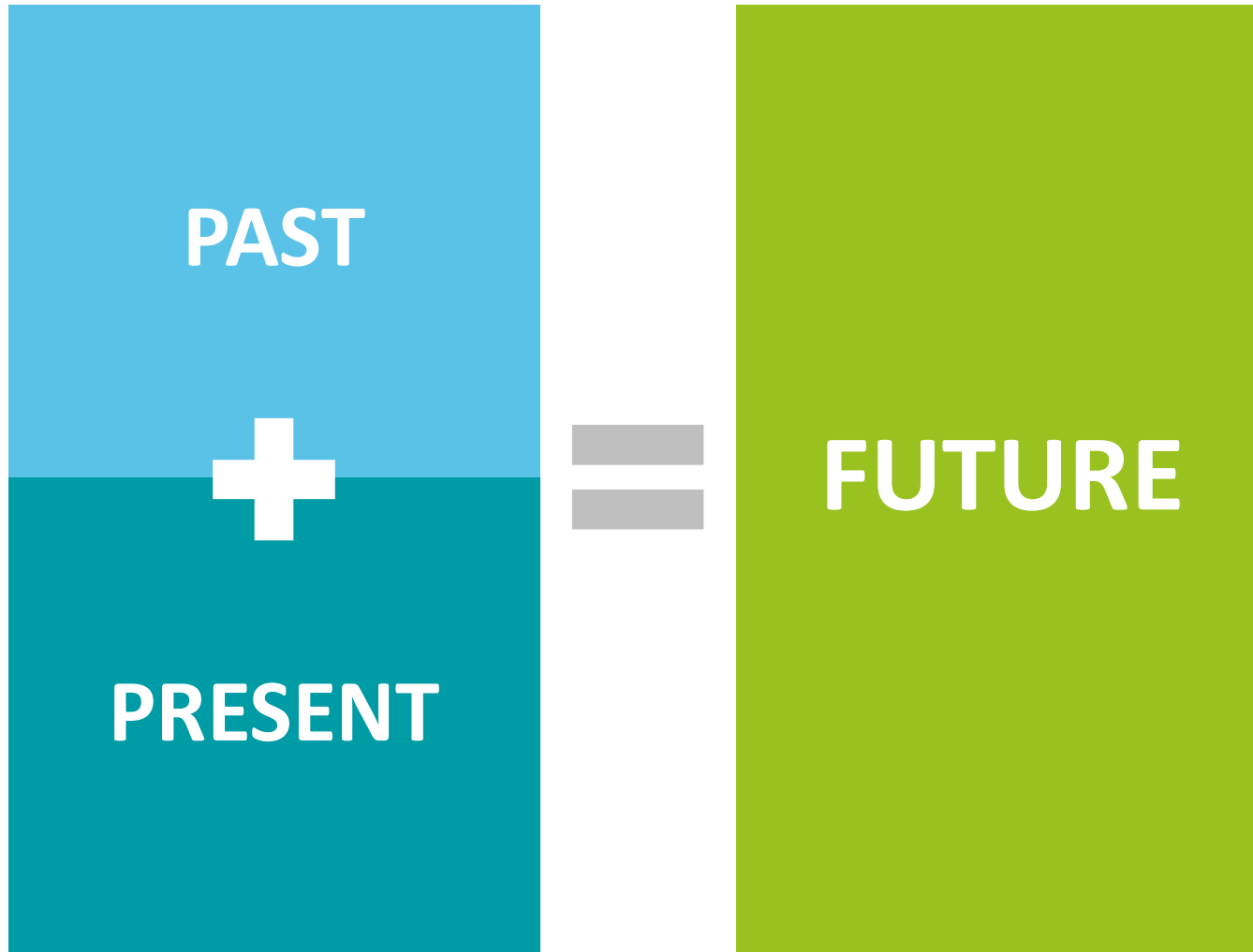
Ability
= PRESENT

Dependability
= FUTURE

Employment History



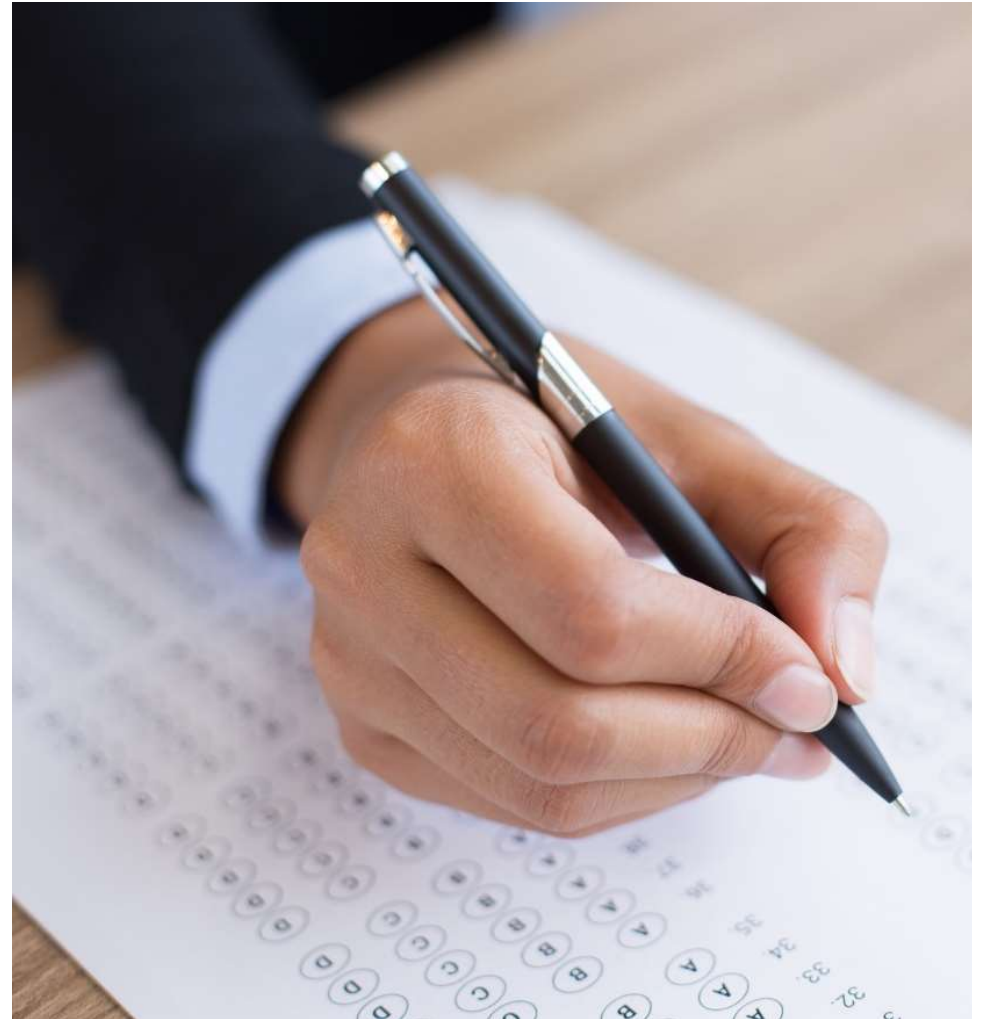
Two years and beyond



Knowledge Check One

Is the following **True** or **False**?

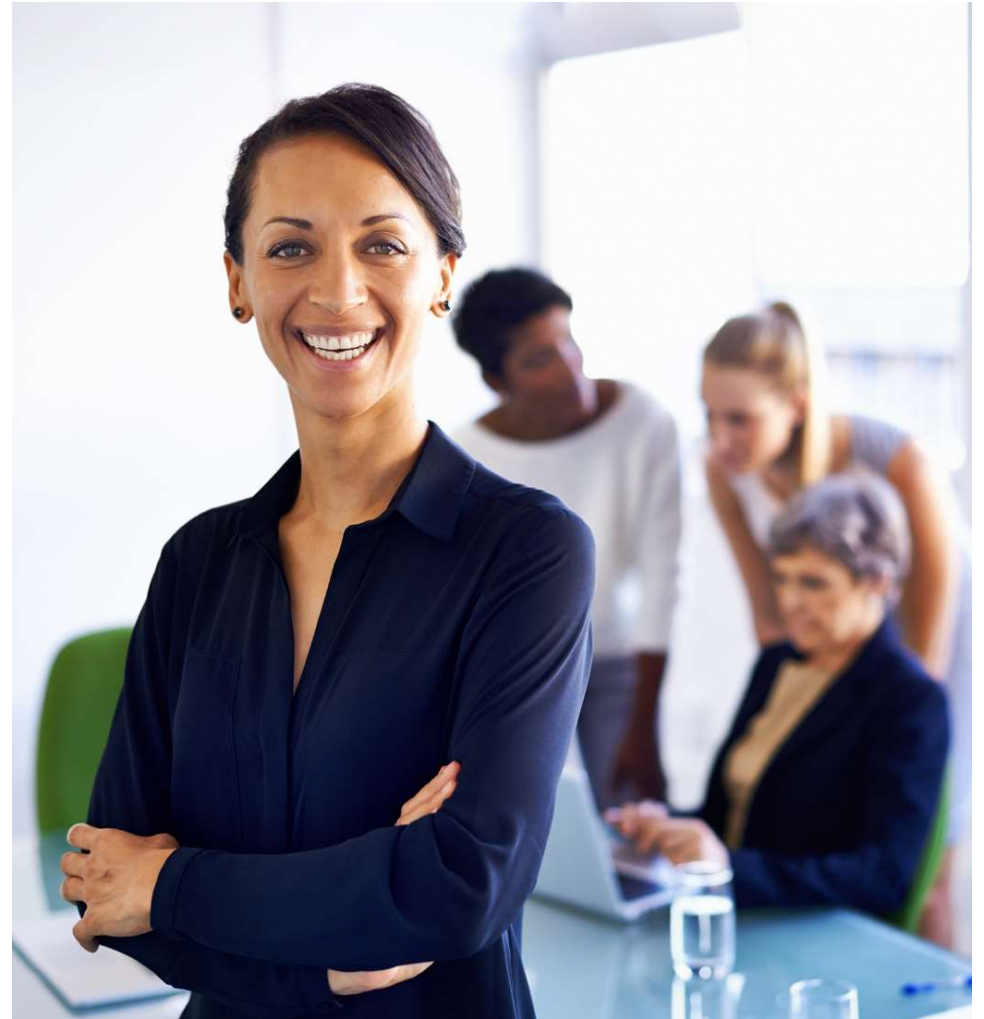
- Capacity includes the collateral.

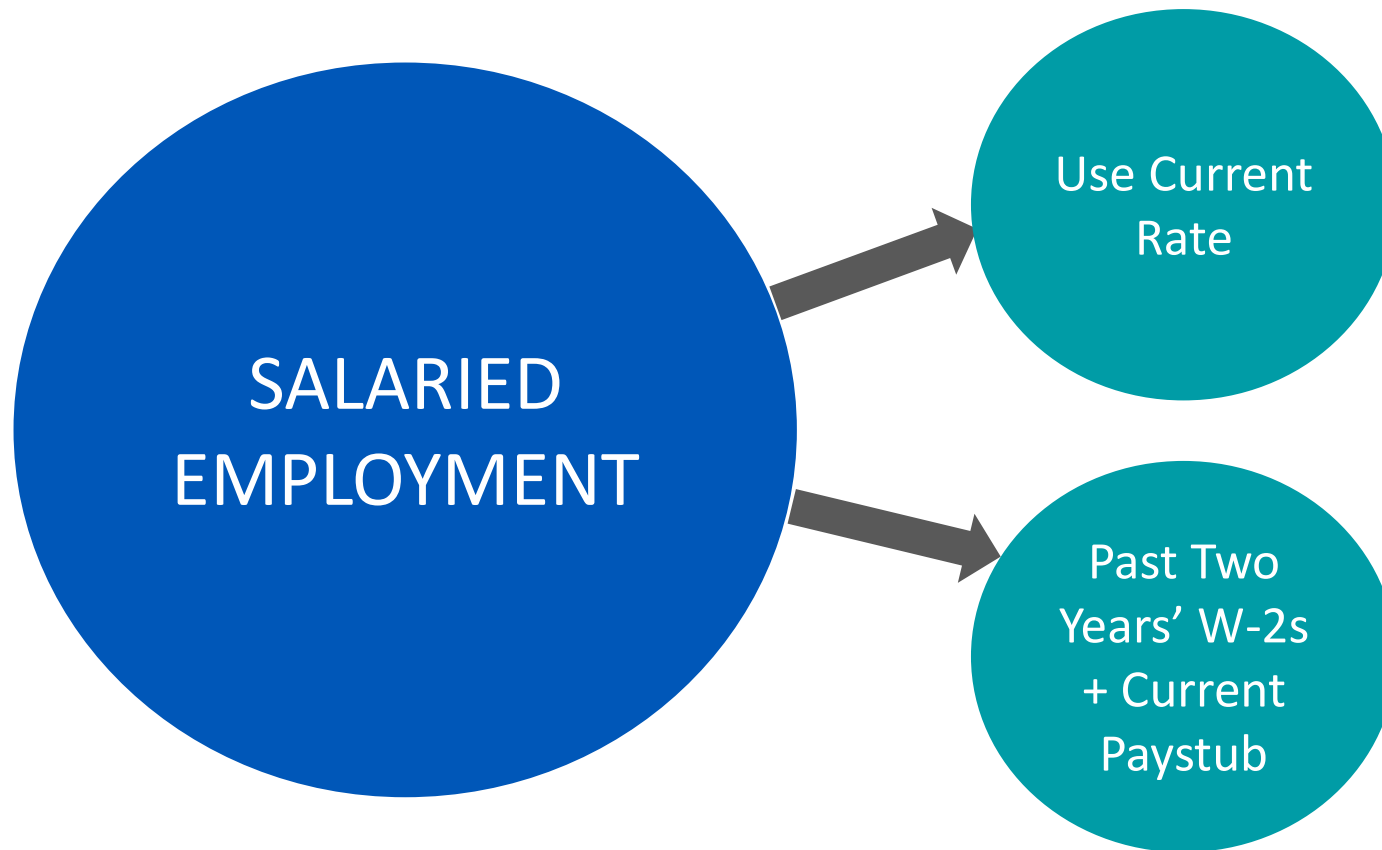


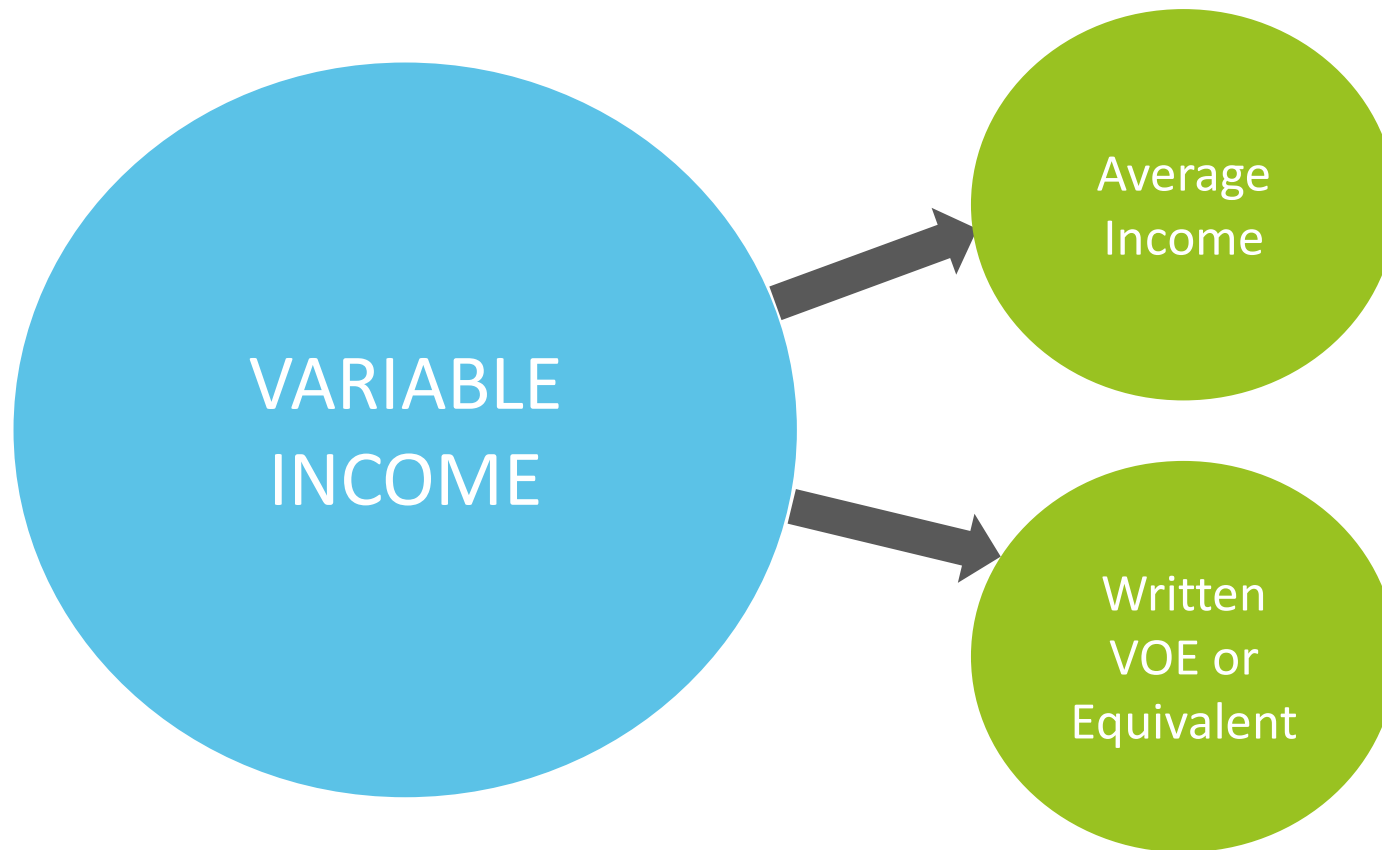
Check Your Understanding One

The answer is *False*.

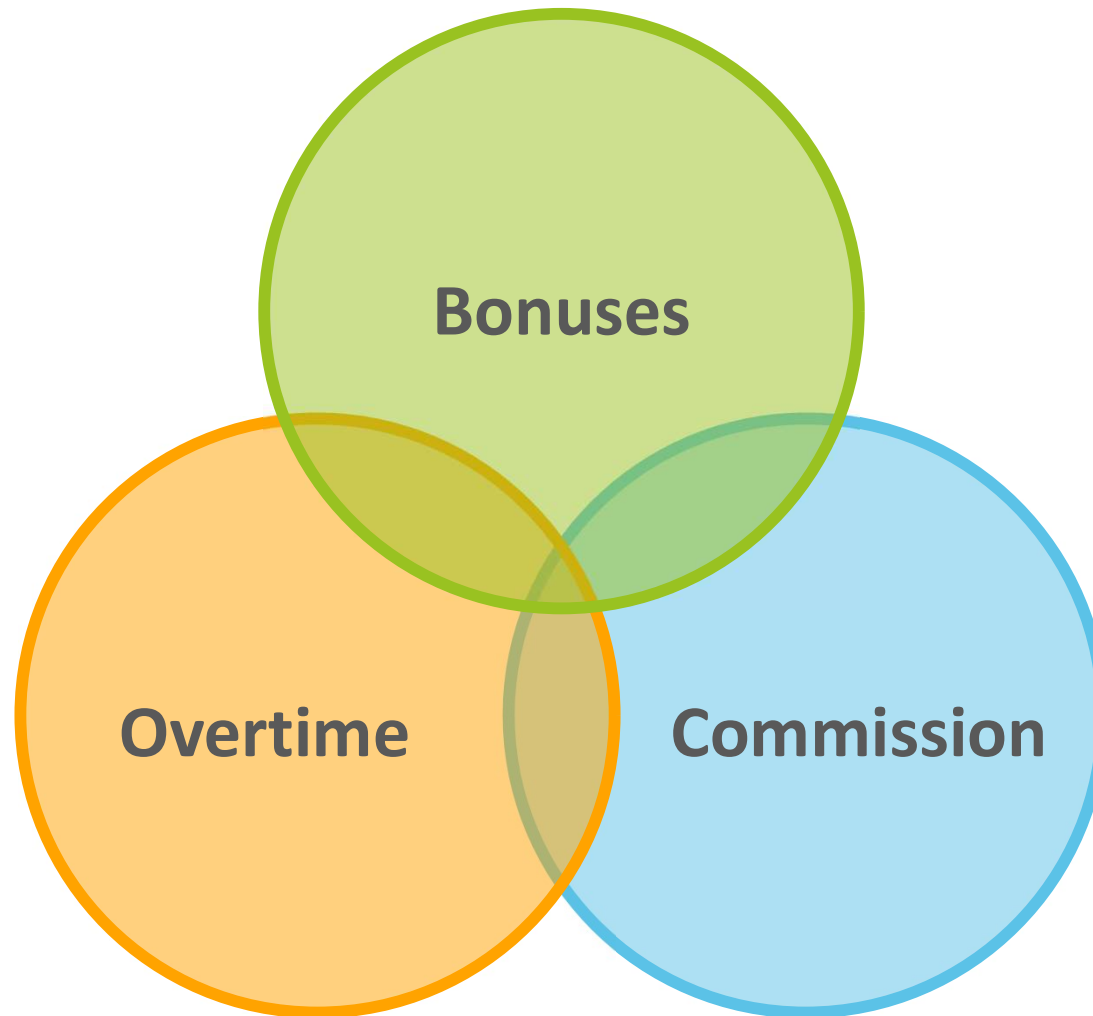
- Capacity does NOT include the collateral.

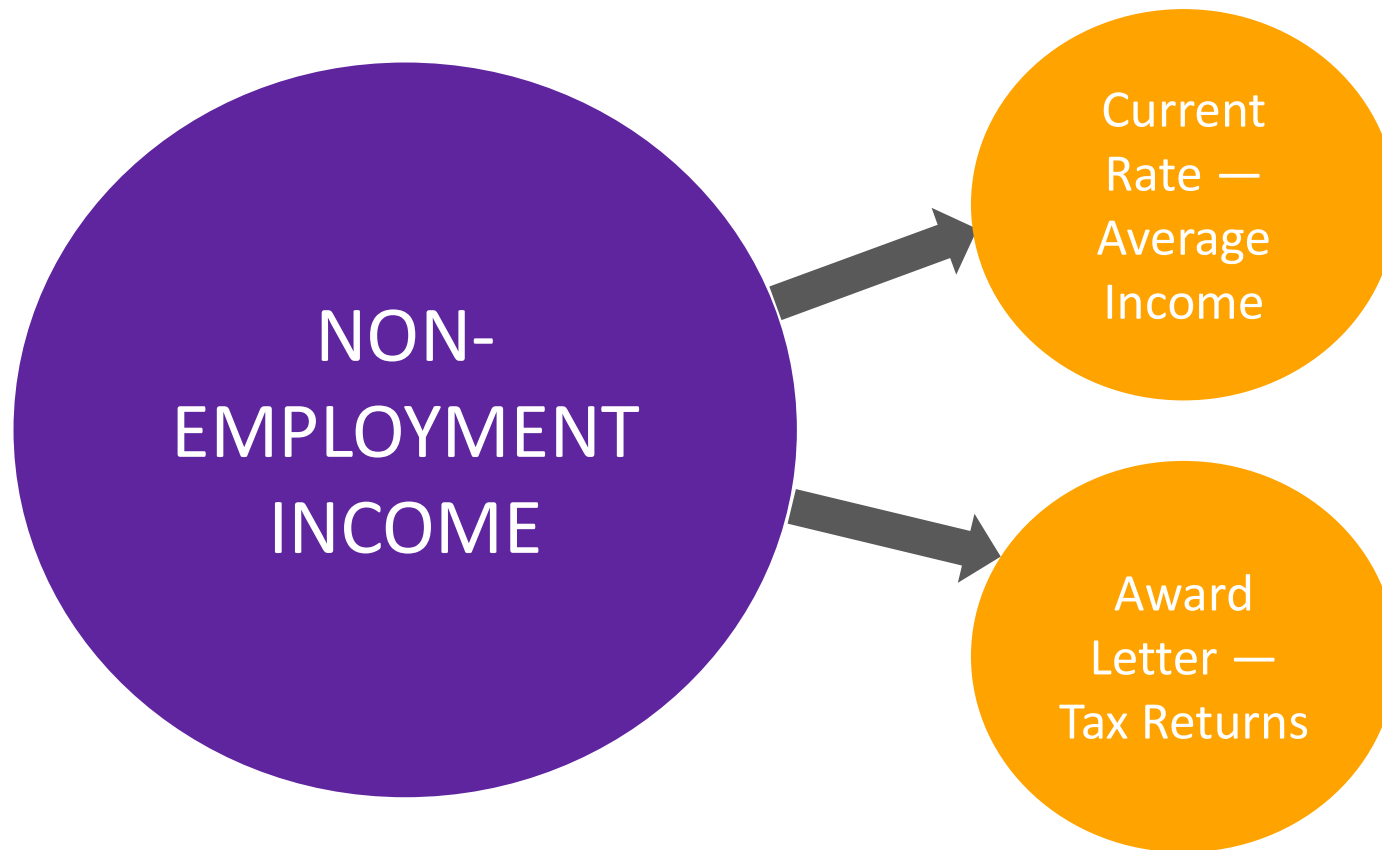


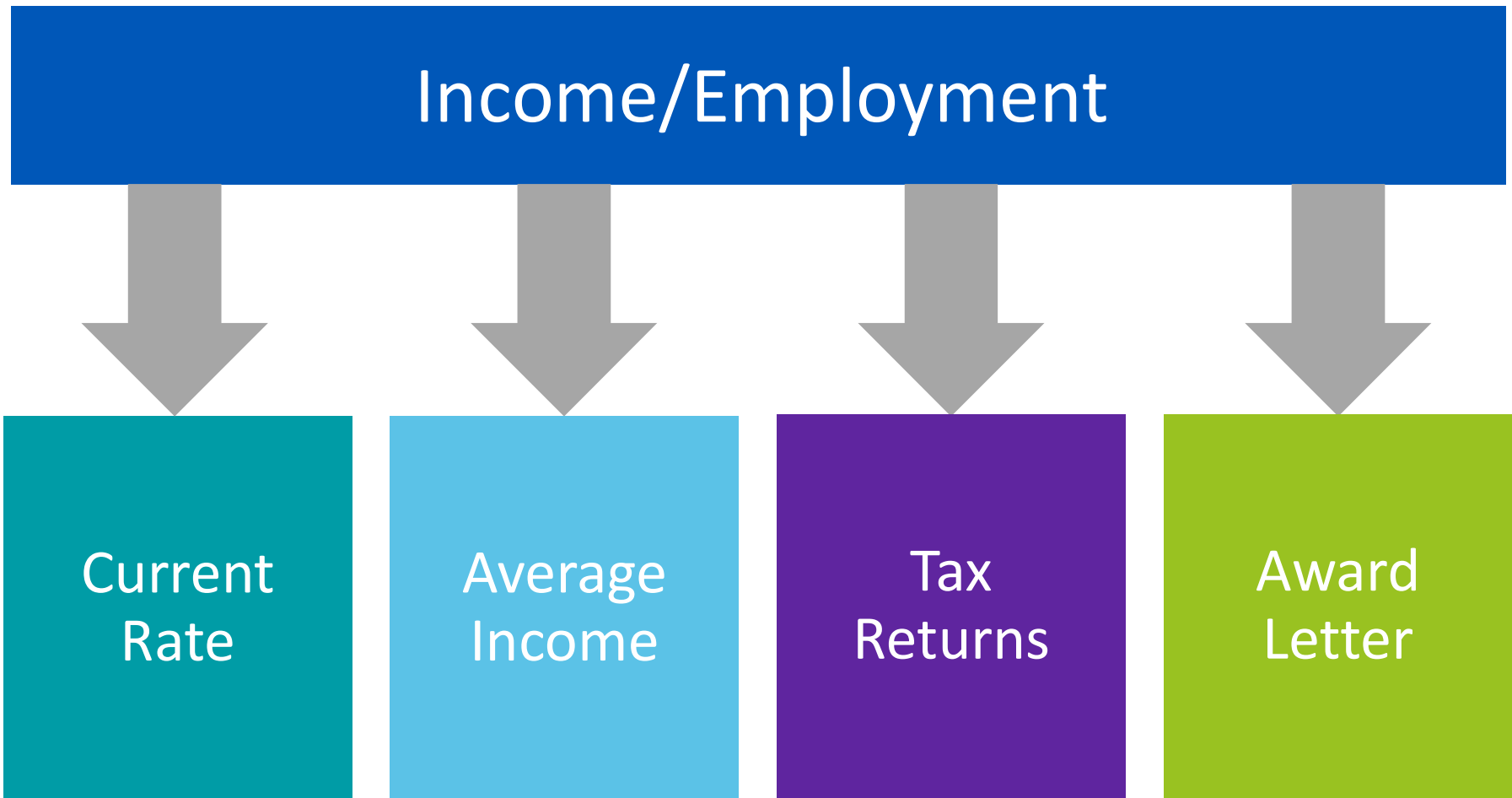




Income/Employment — Variable Income







Income Test

1. Is it needed to qualify?

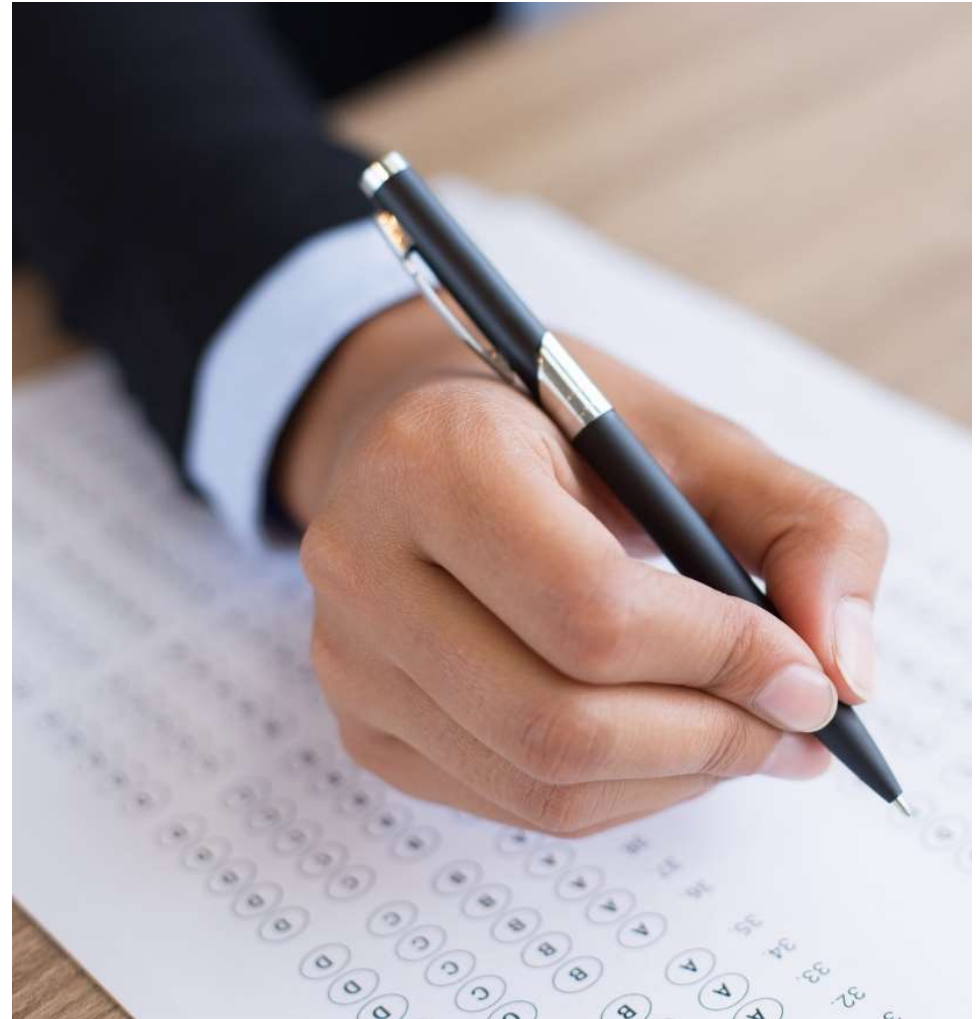
2. What is the history?

3. Can it be documented?

Knowledge Check Two

Is the following **True** or **False**?

- It is acceptable to always count variable income such as overtime, bonus and commission.



Check Your Understanding Two

The answer is ***False***.

- It is NOT acceptable to always count variable income such as overtime, bonus and commission.



Capacity — Assets



Down Payment, Closing Costs and Reserves

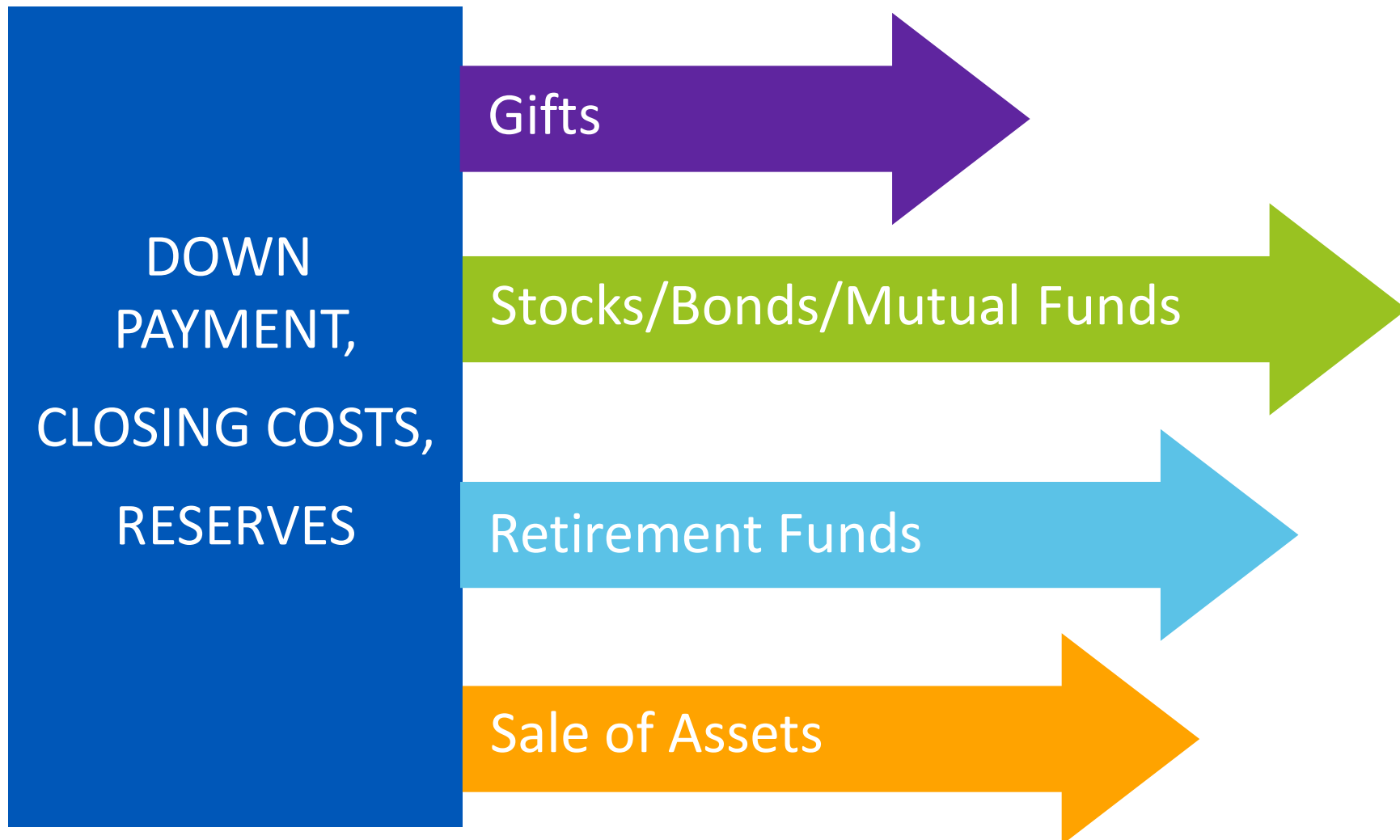


Down Payment

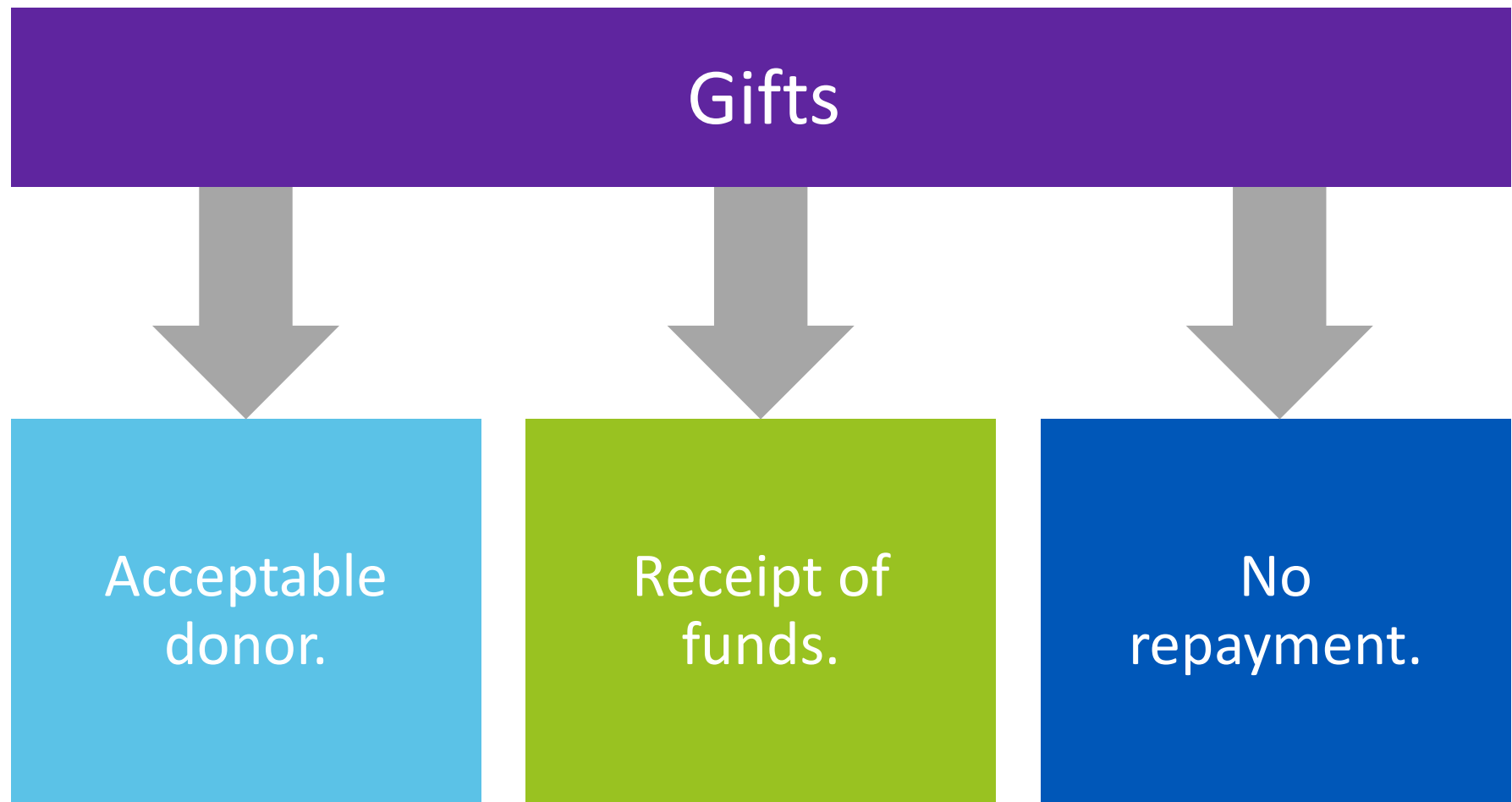
Closing Costs



Asset Types Used for Down Payment, Closing Costs, Reserves



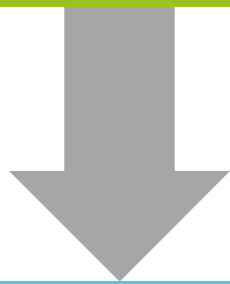
Gifts Used for Down Payment, Closing Cost, Reserves



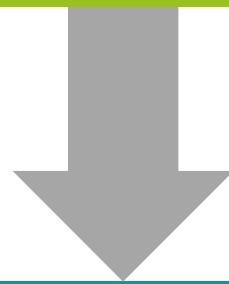
Stocks/Bonds/Mutual Funds Used for Down Payment, Closing Cost, Reserves



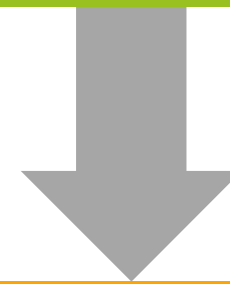
Stocks/Bonds/Mutual Funds



Determine and verify value of asset and verify borrower owns account/asset.



*Used for Down Payment or Closing Costs:
Proof of liquidation required.



Used for Reserves:
100% of asset value may be considered and liquidation is not required.

Source: Fannie Mae Selling Guide B3-4.3-01, Stocks, Stock Options, Bonds, and Mutual Funds (06/30/2015)

Retirement Funds Used for Down Payment, Closing Cost, Reserves

Retirement Funds

Verify borrower owns account, confirm account is vested and withdrawals are allowed regardless of current employment status.

*Stocks, bonds, mutual funds used for Down Payment or Closing Costs must comply with Stock/Bond/Mutual Fund requirements.

Used for Reserves: funds do not need to be withdrawn from the account.

Source: Fannie Mae Selling Guide B3-4.3-03, Retirement Accounts (06/30/2015)

Liquidation Requirements: Stocks, Bonds, Mutual Funds, Retirement Funds



***Used for Down Payment or Closing Costs**

Value is greater than or equal to 20% of amount needed for Down Payment or Closing Costs:

NO Documentation Required

Borrower's receipt of funds realized from sale or liquidation.

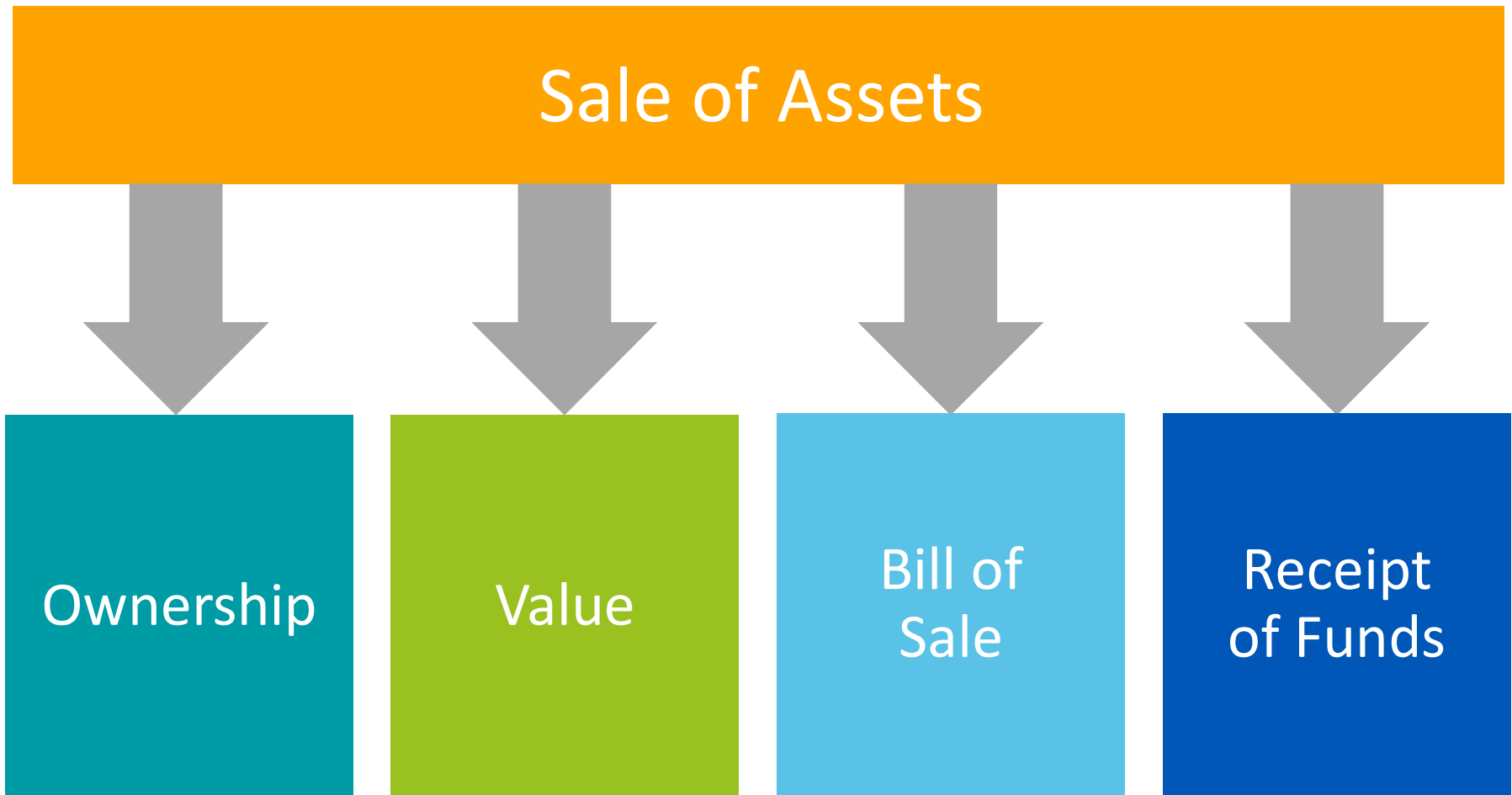
Value is less than 20% of amount needed for Down Payment or Closing Costs:

Documentation Required

Borrower's receipt of funds realized from sale or liquidation.

Source: Fannie Mae Selling Guide B3-4.3-01, Stocks, Stock Options, Bonds, and Mutual Funds (06/30/2015)

Sale of Assets Used for Down Payment, Closing Cost, Reserves





Borrowed Funds

Assets — Borrowed Funds



Secured

Yes

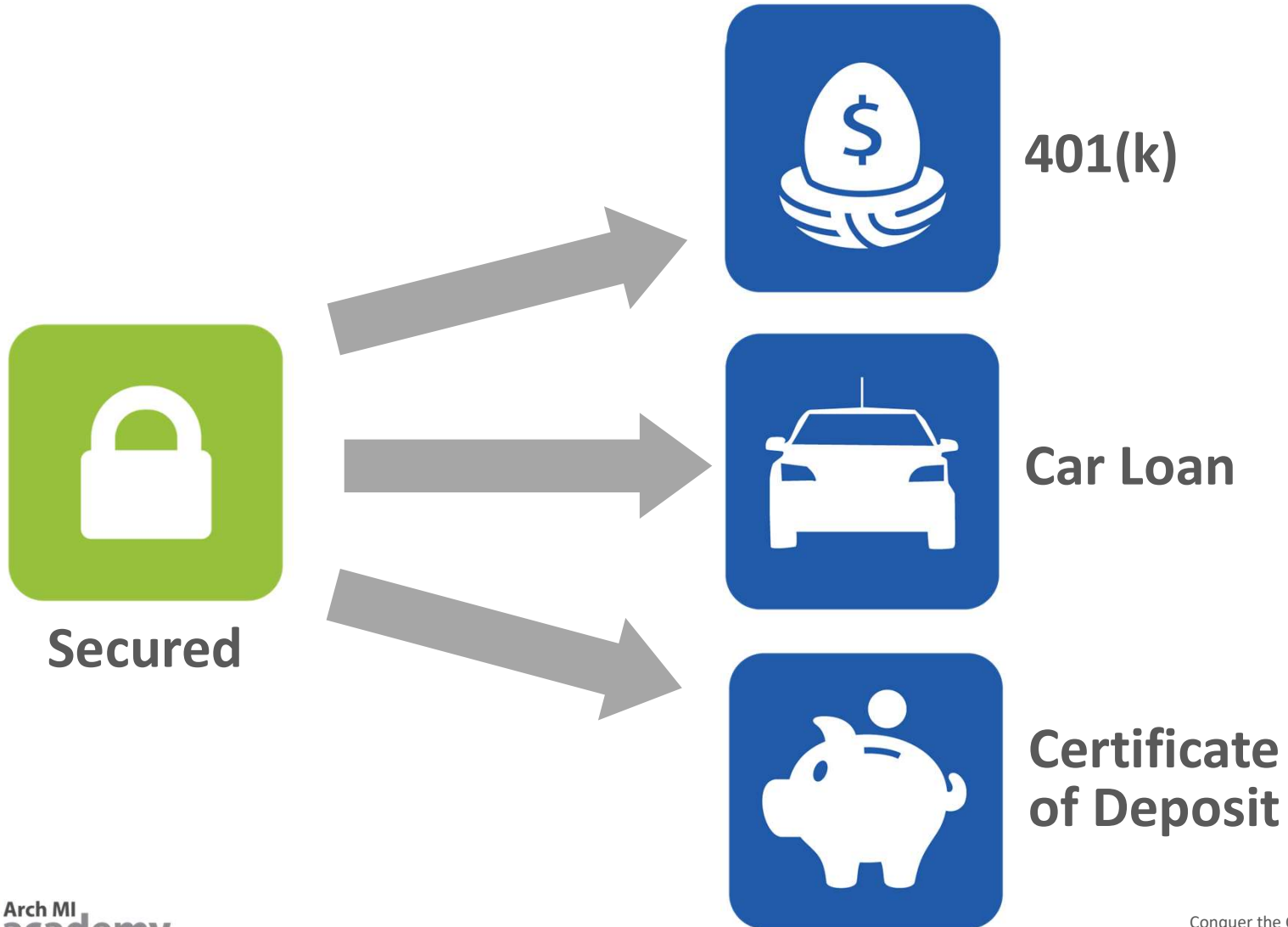


Unsecured

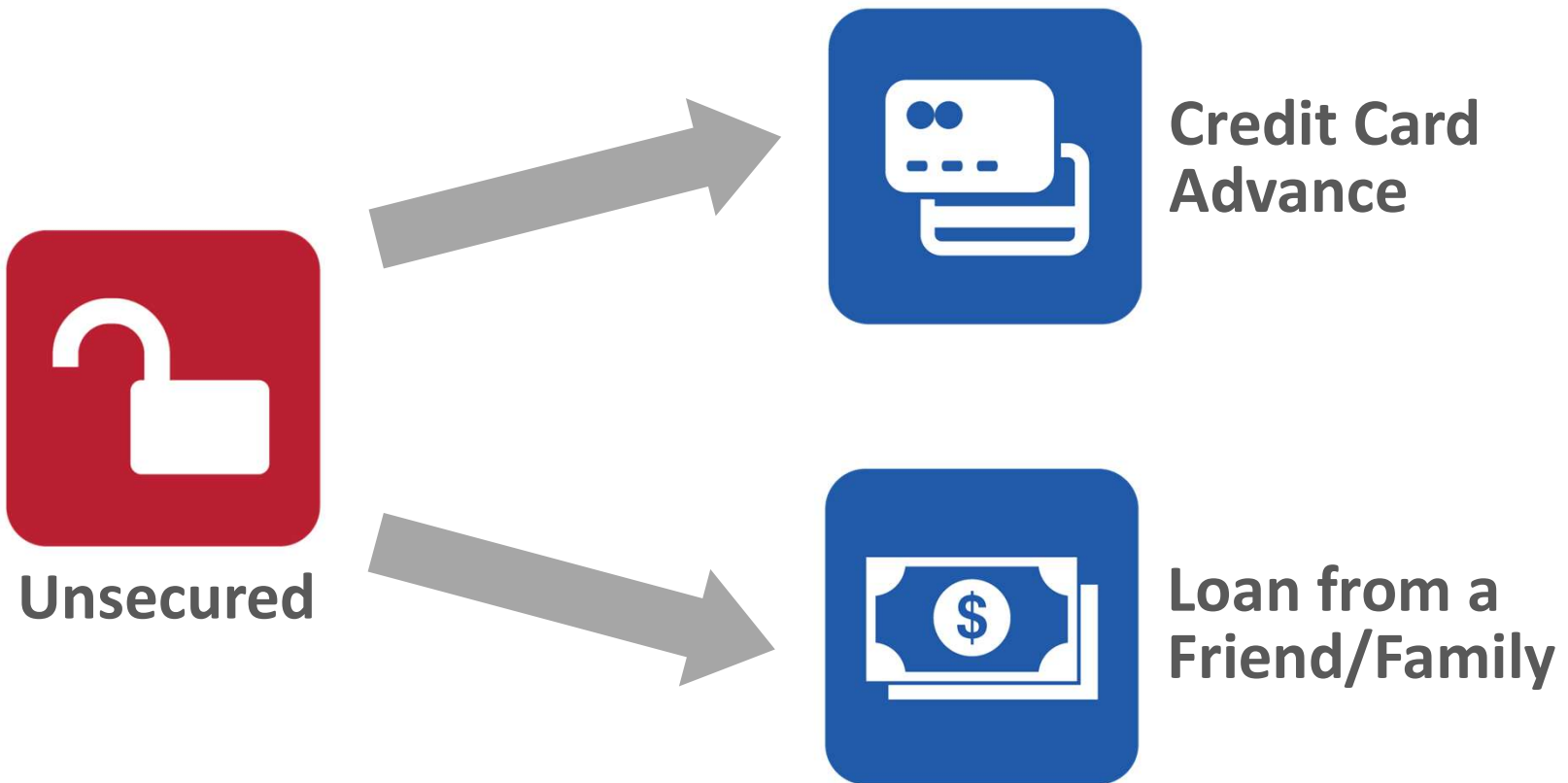
No



Assets — Secured



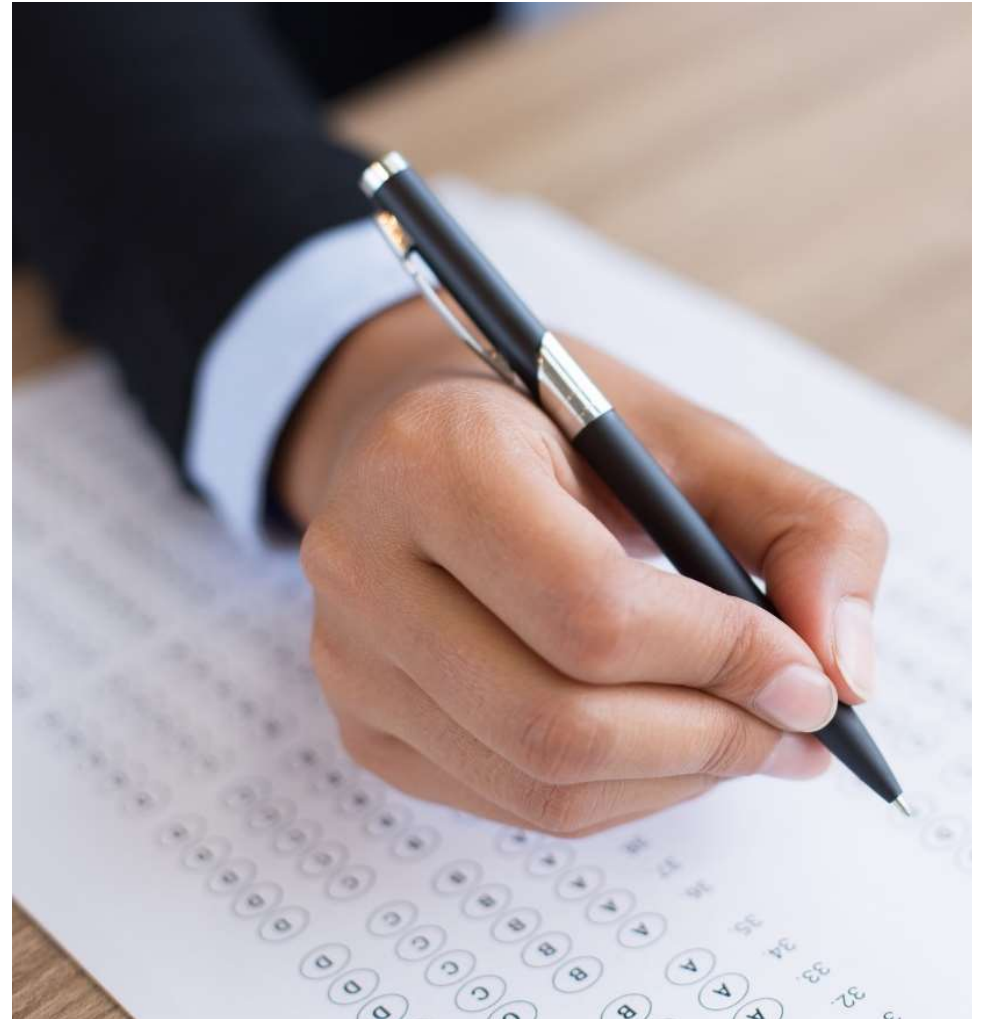
Assets — Unsecured



Knowledge Check Three

Is the following **True** or **False**?

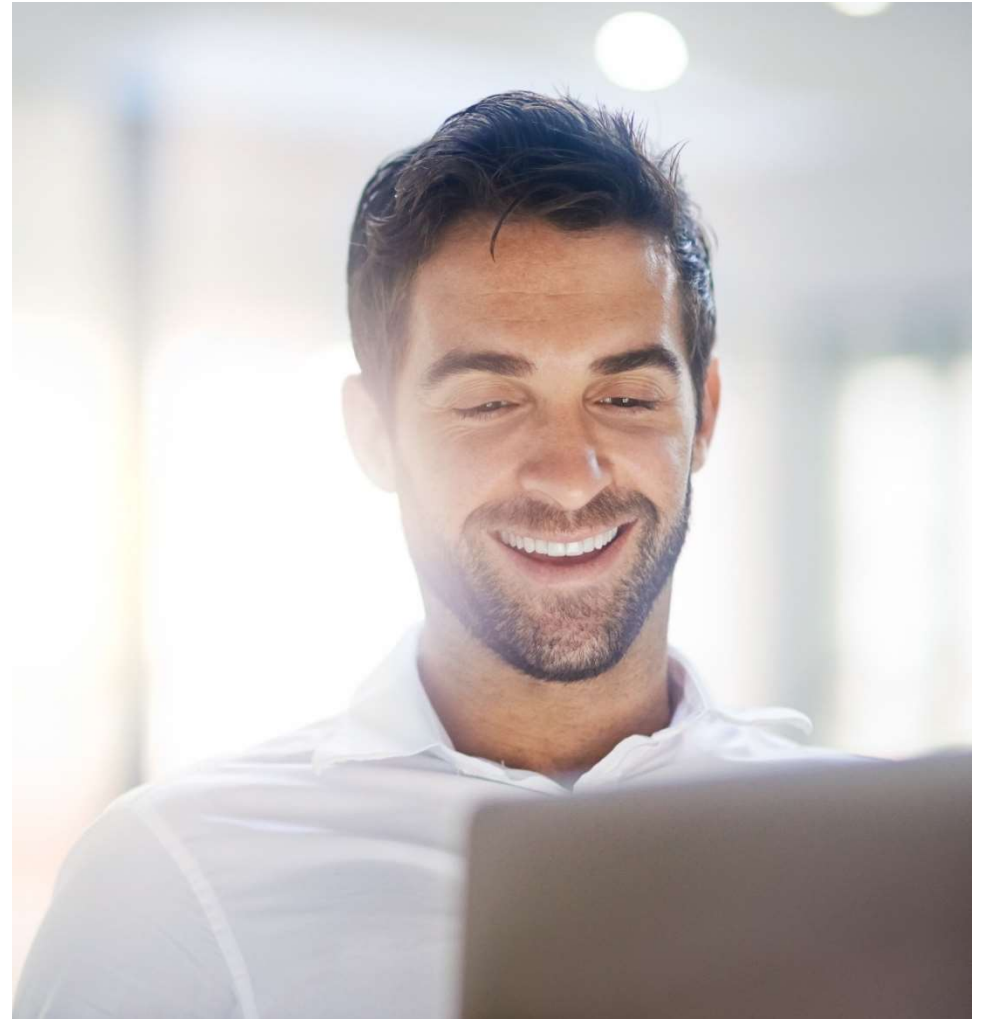
- Undocumented funds for down payment and closing are unacceptable.



Check Your Understanding Three

The answer is *True*.

- Undocumented funds for down payment and closing are unacceptable.



Capacity — Ratios

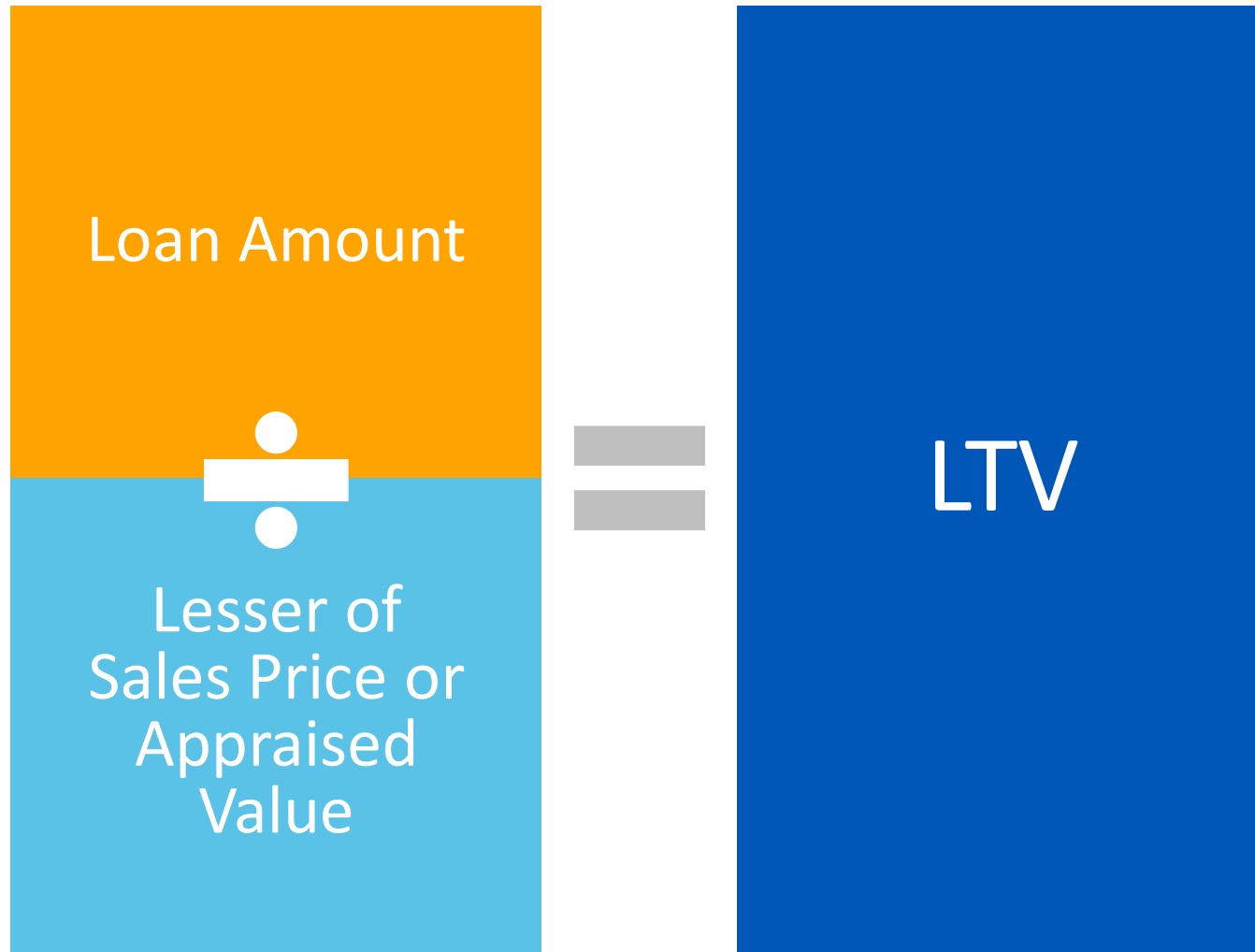


Capacity



LOAN-TO-VALUE (LTV)

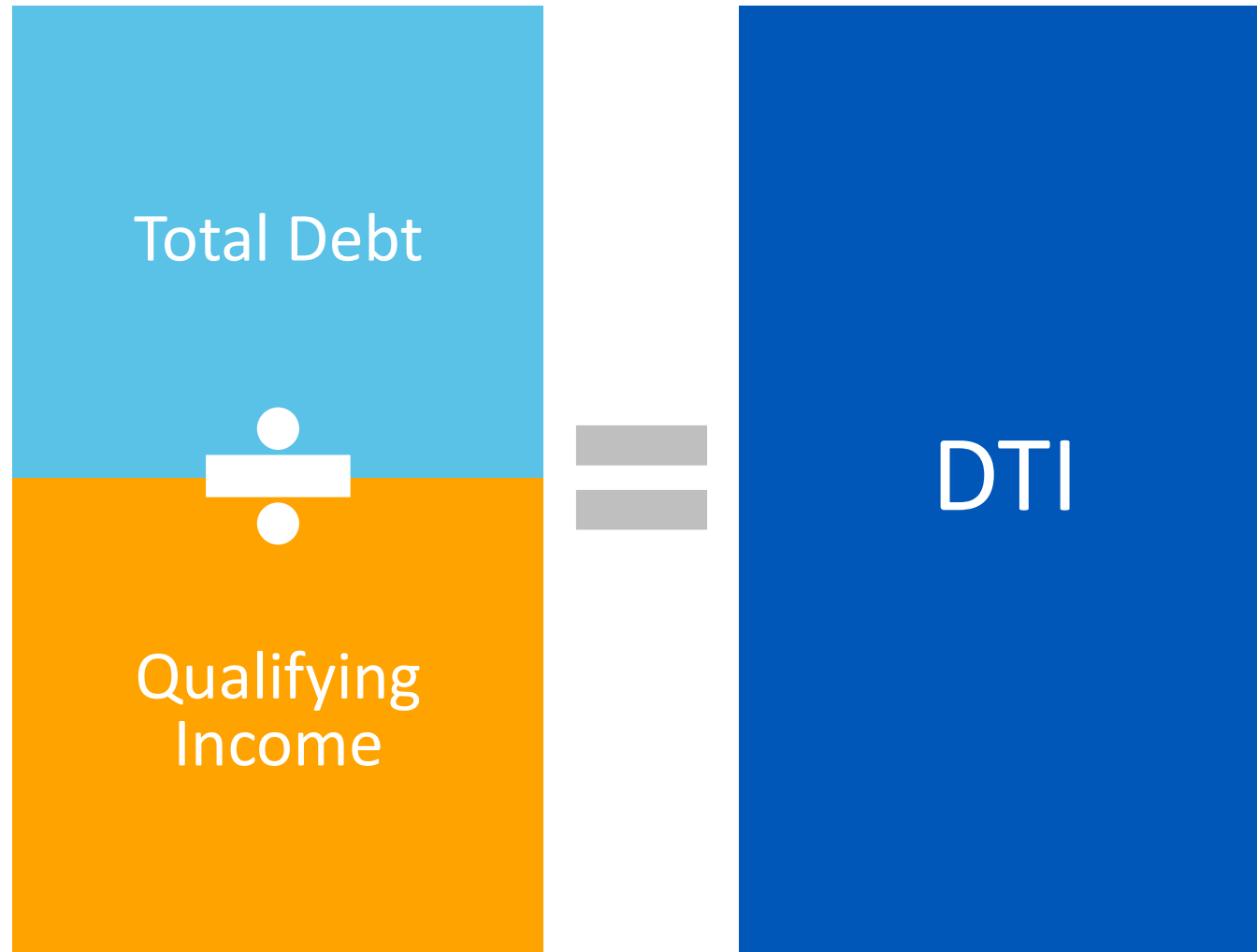
Loan-to-Value





Debt-to-Income Ratio (DTI)

Debt-to-Income (DTI)



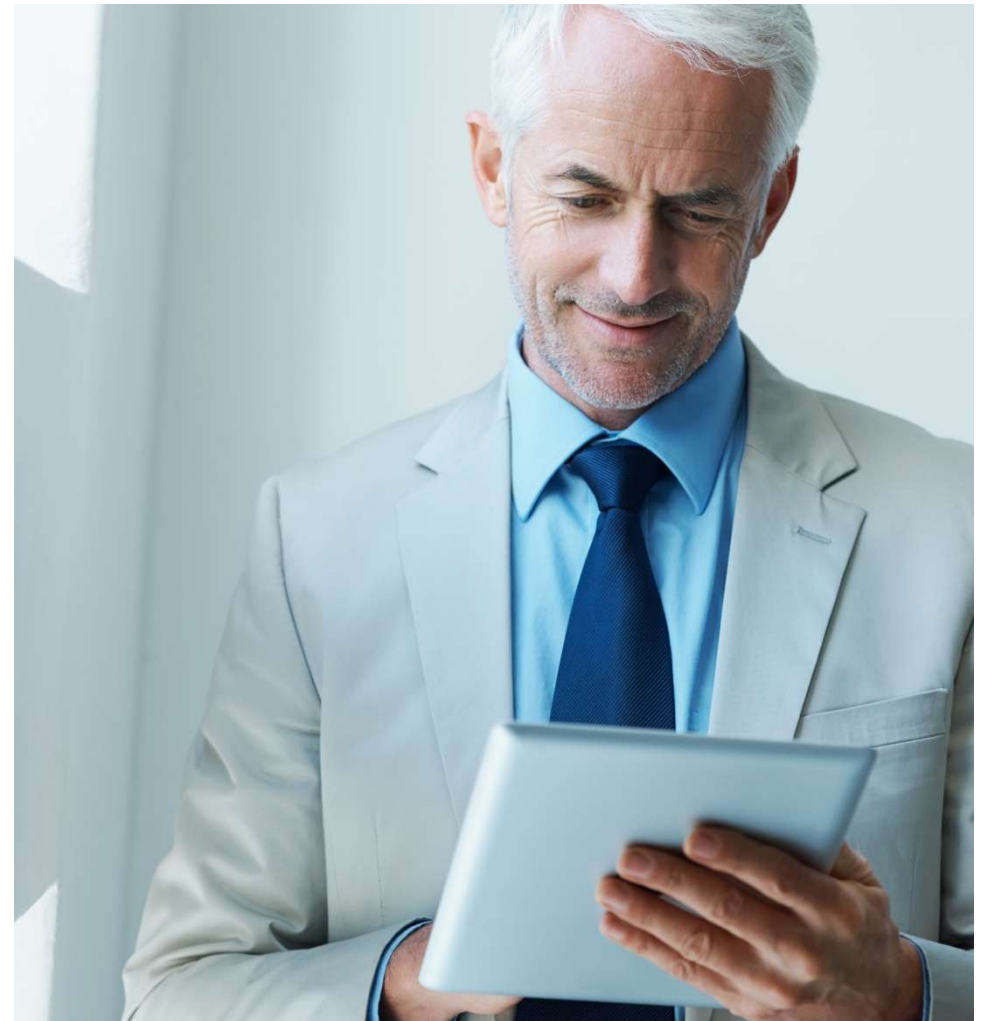
Credit



Credit Reports in the Past

Historically, credit reports provided:

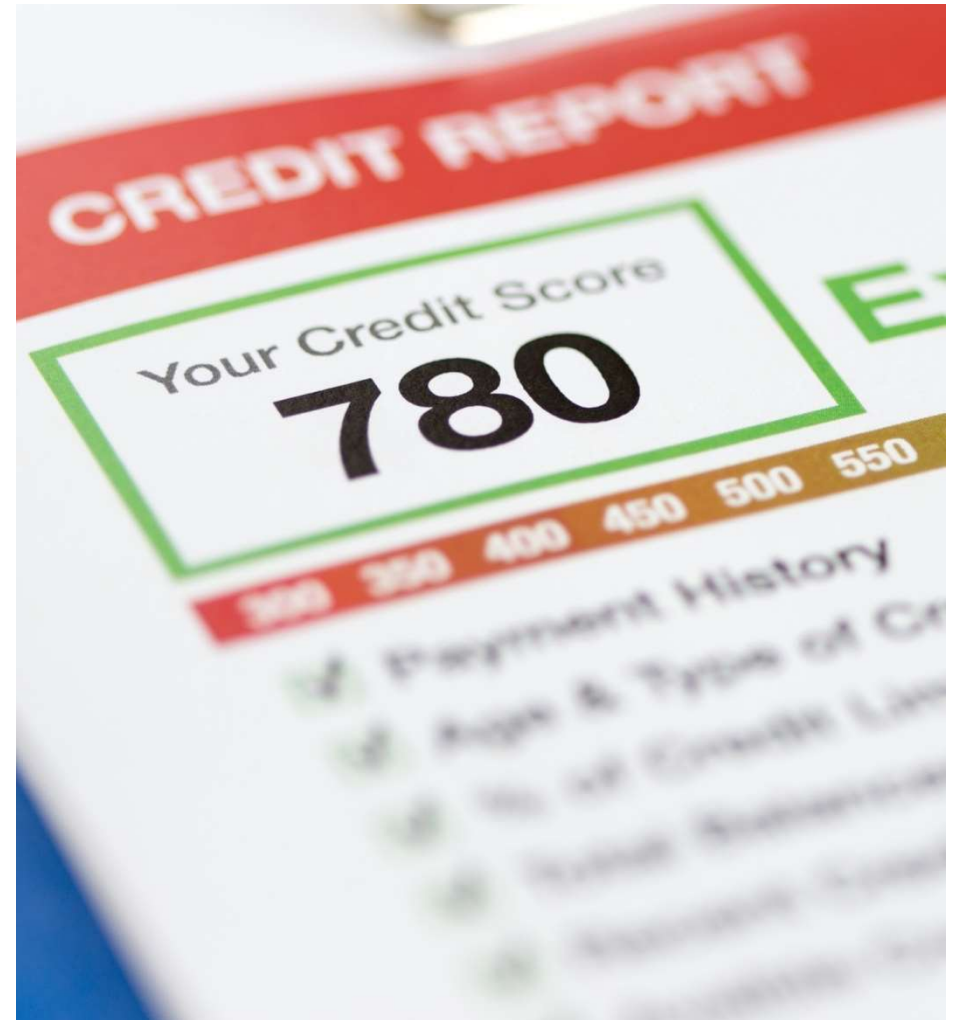
- Outstanding balance.
- Minimum payment due.
- Available credit amount or original amount borrowed.
- How credit debt is paid:
 - On time.
 - Late.



Credit Reports Today

Today credit reports include **Trended Credit Data**.

- Two-year history of consumer revolving account management.
 - Outstanding balance history.
 - Scheduled payment history.
 - Actual monthly payments for up to 24 months.



Why Trended Credit Data?

Deeper insight into consumer behavior.

- More granular consumer patterns.
- Historical information predicts future risk.
- Identifies core consumer credit management behavior types:

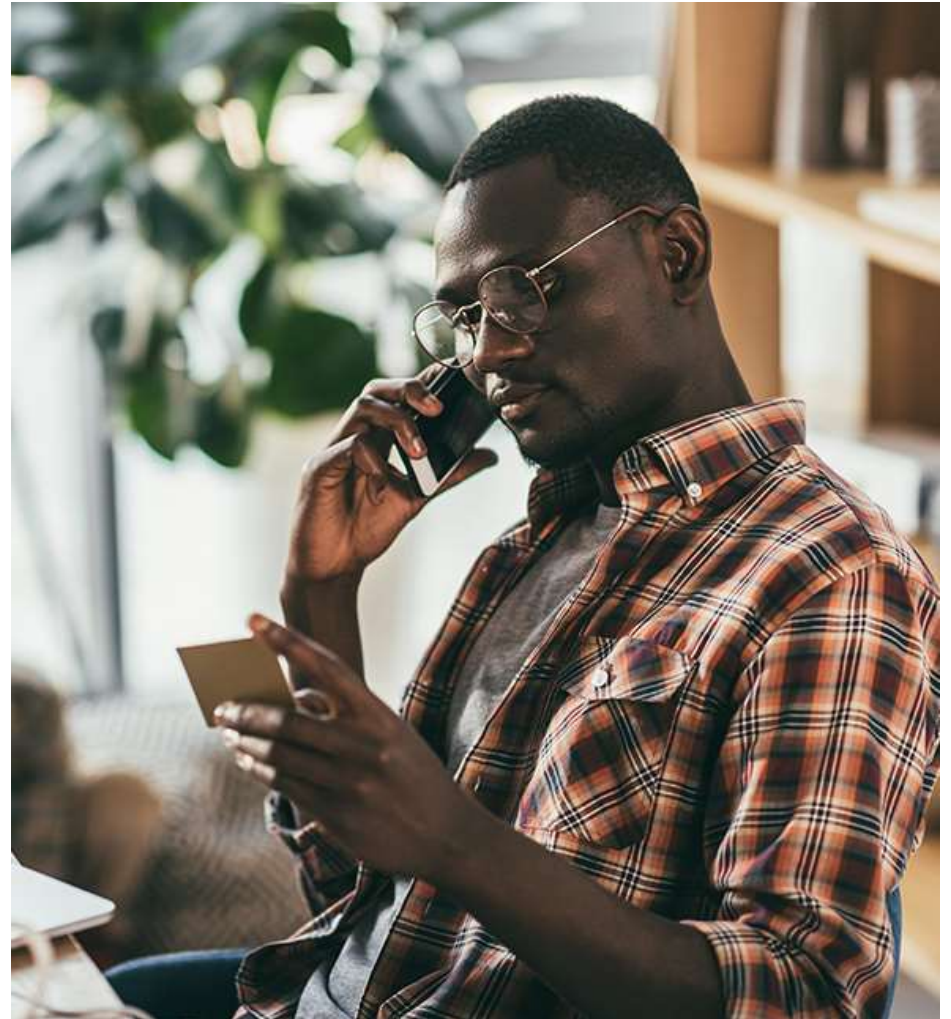


Transactor

Revolver

Transactor

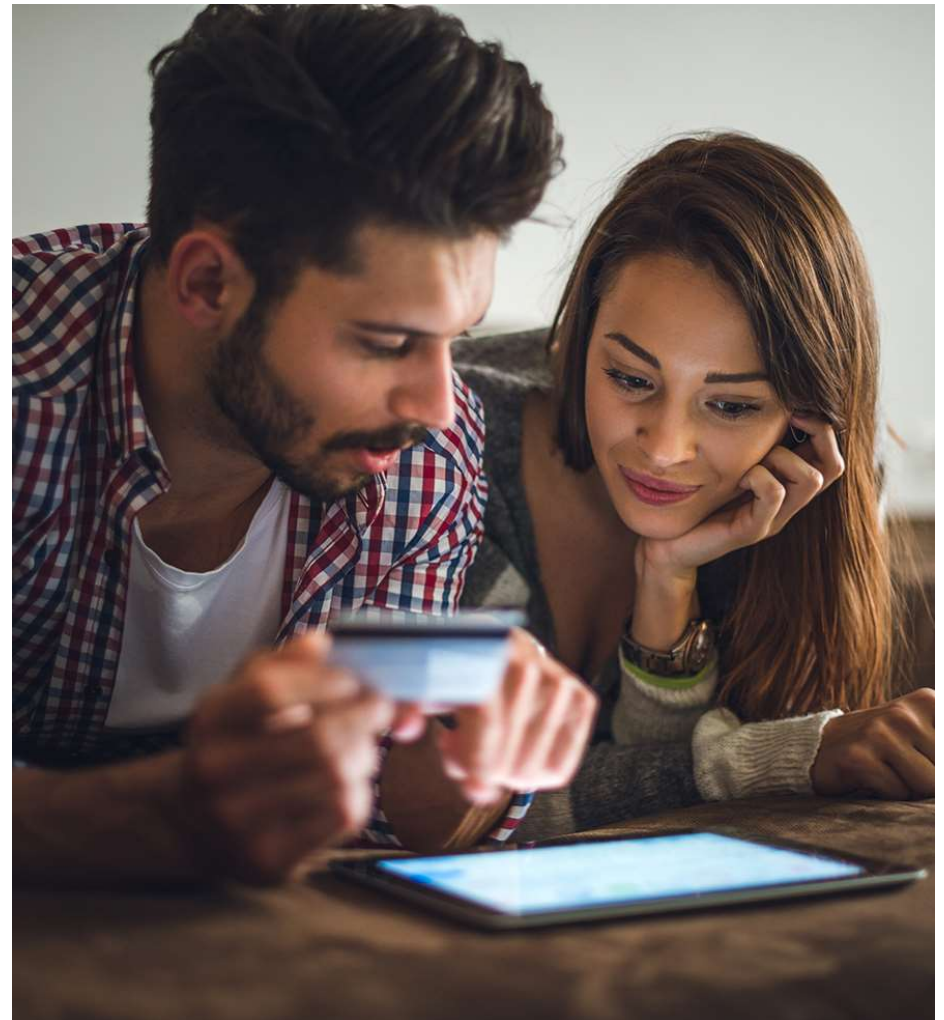
- Uses revolving credit.
- Pays full balance amounts each month.



Observed Behavior Types

Revolver

- Carries credit card balances.
- Makes minimum payments or pays amount less than full balance.

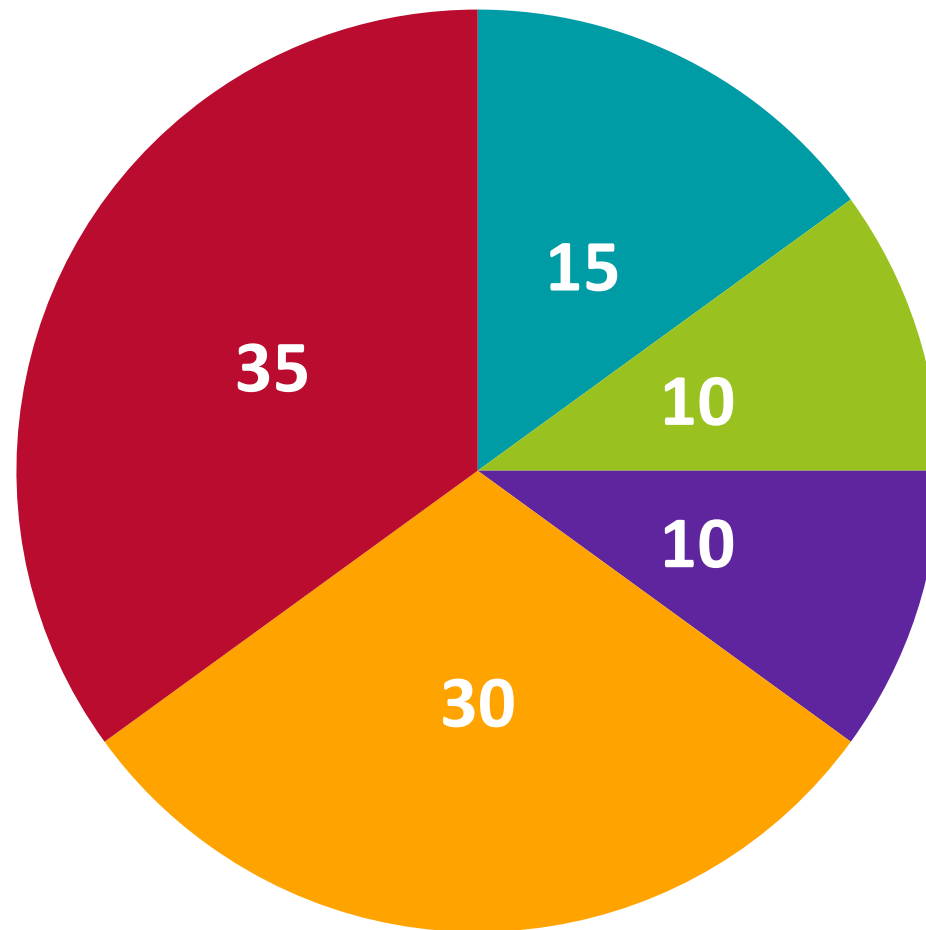


Research Shows That Borrowers ...

... who never exceed their limit **are** 75% less likely to become delinquent **than borrowers who** exceeded their credit card limit in the last 12 months.

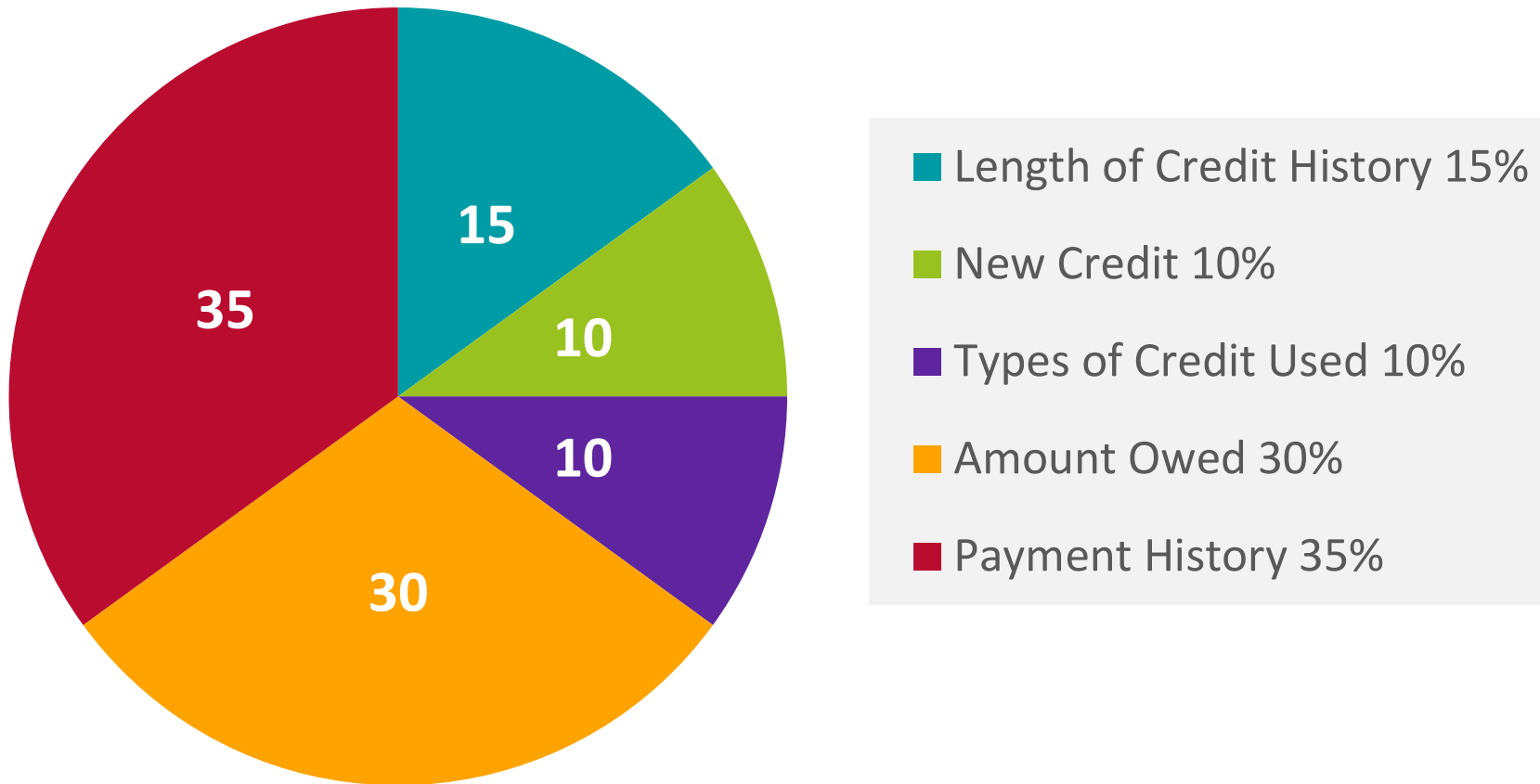
... who pay off their credit card every month **are** 60% less likely to become delinquent **than borrowers who** only make their minimum payment each month.

Credit Score Factors



Source: <https://www.myfico.com/credit-education/whats-in-your-credit-score>

Credit Score Factors



Source: <https://www.myfico.com/credit-education/whats-in-your-credit-score>

Payment History
Debts Paid on Time

35%

Source: <https://www.myfico.com/credit-education/whats-in-your-credit-score>

Amount Owed

Balance below 50%
of Credit Limit

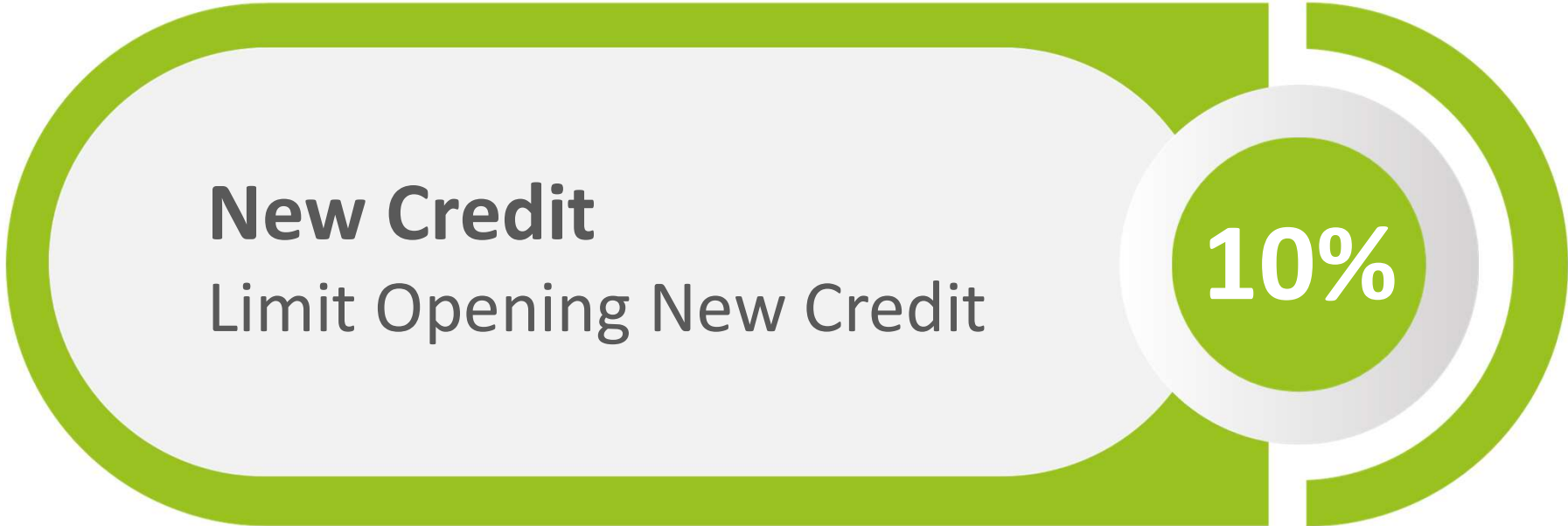
 30%

Source: <https://www.myfico.com/credit-education/whats-in-your-credit-score>

Length of Credit History
Accounts Kept Open with
a History

15%

Source: <https://www.myfico.com/credit-education/whats-in-your-credit-score>

A large green rounded rectangle with a white inner section. On the right side, there is a circular graphic with a green center and a white ring.

New Credit
Limit Opening New Credit

10%

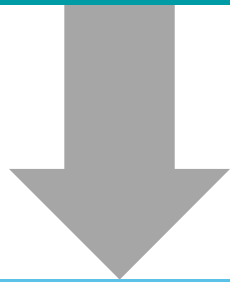
Source: <https://www.myfico.com/credit-education/whats-in-your-credit-score>

Types of Credit Used
Mixed Use

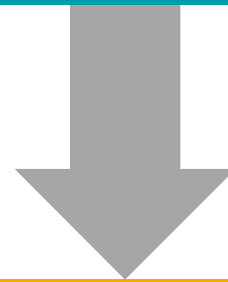
10%

Source: <https://www.myfico.com/credit-education/whats-in-your-credit-score>

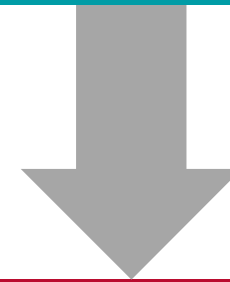
Extenuating Circumstances



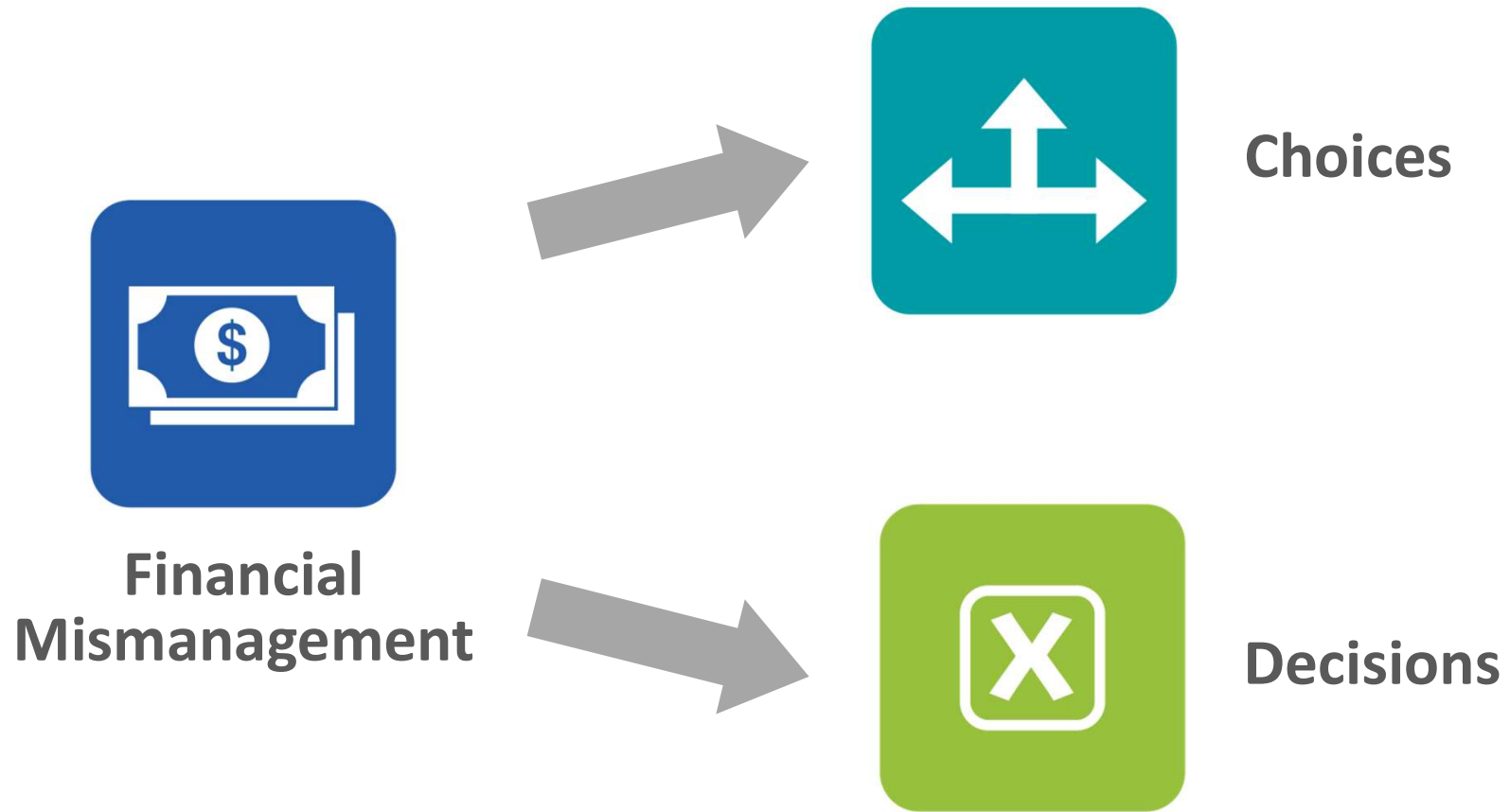
Isolated



Beyond Their
Control



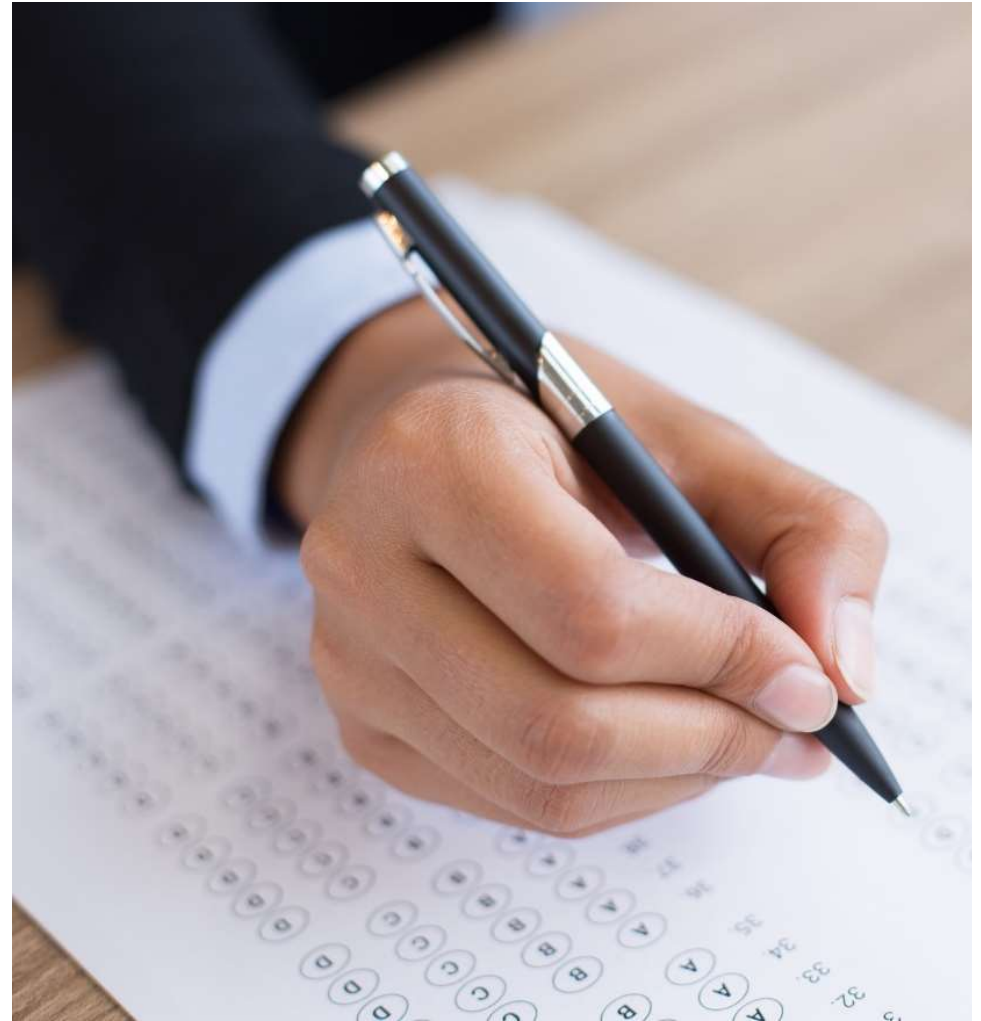
Unable to
Pay Bills



Knowledge Check Four

Is the following **True** or **False**?

- Payment history carries the most weight in a credit score.



Check Your Understanding Four

The answer is *True*.

- Payment history carries the most weight in a credit score.



DEBTS YOU COUNT

- Student Loans.
- Auto Leases.

DEBTS YOU DON'T COUNT

- Installment Loans ≤ 10 Payments.
- Loans Secured by Financial Assets.
- Contingent Debt.
- Credit Card Accounts Paid Down to Zero.

Liabilities – Student Loans



Fannie Mae

- Income-Driven Payment Plan:
 - Obtain student loan documentation to verify actual zero monthly payment.
- Deferred Loans or Loans in Forbearance:
 - Calculate a payment equal to 1% of the outstanding loan balance or fully amortizing payment using documented repayment terms.

Freddie Mac

- Zero Monthly Payment:
 - Use 0.5% of the outstanding balance on credit report.
- Loans in Repayment, Deferment or Forbearance:
 - Use monthly payment amount on credit report or other file documentation when not zero.

Collateral



Collateral

Uniform Residential Appraisal Report

The purpose of this uniform appraisal report is to provide the reader with an accurate, and acceptably supported, opinion of the value of the subject property.

Property Address: _____ City: _____ State: _____ Zip Code: _____
County: _____

Legal Description: _____

Appraiser's Name: _____ Date: _____ F.I.E. Status: _____
Neighborhood Name: _____ Map Reference: _____ Census Tract: _____

Occupant: Owner Tenant Vacant Special Assessments: PUD HOA/S Low rise Low rise/condo

Property Rights Appraised: Fee Simple Leasehold Other (describe): _____
Assignment Type: Purchase Transaction Refinance Transaction Other (describe): _____
Lender/Client: _____ Address: _____

Is the subject property currently offered for sale or has it been offered for sale in the twelve months prior to the effective date of this appraisal? Yes No
Report date (month/year), offering status, and details: _____

Yes No Did not analyze the contract for sale for the subject purchase transaction. Explain the results of the analysis of the contract for sale or why the analysis was not performed: _____

Contract Price \$: _____ Date of Contract: _____ Is the property under the owner of public record? Yes No (Date Source): _____

Is there any financial assistance (loan charges, sale concessions, gift or development assistance, etc.) to be paid by any party on behalf of the borrower? Yes No
If Yes, report the total dollar amount and describe the items to be paid: _____

Note: Race and the racial composition of the neighborhood are not appraisal factors.

Neighborhood Characteristics		One-Unit Housing Trends				One-Unit Housing		Present Land Use %	
Location: <input type="checkbox"/> Urban <input type="checkbox"/> Suburban <input type="checkbox"/> Rural	Property Value: <input type="checkbox"/> Increasing <input type="checkbox"/> Stable <input type="checkbox"/> Declining	PROG	AGE	CRIME	CR	%	CRIME	CR	%
Build-Up: <input type="checkbox"/> Over 75% <input type="checkbox"/> 25-75% <input type="checkbox"/> Under 25%	Demographics: <input type="checkbox"/> Stable <input type="checkbox"/> Increasing <input type="checkbox"/> Decreasing	\$ (2000)	Year	2-4 Unit	%				
Street: <input type="checkbox"/> Basic <input type="checkbox"/> Stable <input type="checkbox"/> Good	Marketing Time: <input type="checkbox"/> Under 30 days <input type="checkbox"/> 30-60 days <input type="checkbox"/> Over 60 days	Low	Multi-Family	%					
Neighborhood Boundaries: _____		High	Commercial	%					
		Phas:	Other	%					

Neighborhood Description: _____

Market Conditions (including support for the above conclusions): _____

Directions: _____ Area: _____ Shape: _____ View: _____

Specific Airing Classification: _____ Airing Description: _____

Strong Contingency: Legal Legal Nonconforming (Over/Under) No Zoning Legal (describe): _____
Is the highest and best use of the subject property as proposed (or as proposed per plans and specifications), the present use? Yes No. If No, describe: _____

Utilities: Public: Other (describe): _____ Public: Other (describe): _____ Off-site Improvements—Type: Public: Private: _____

Electricity: Gas: Water: Sewer: Gas: Alley: _____

Yes No FEMA Flood Zone: _____ FEMA Map # _____ FEMA Map Date: _____

Are the utility and off-site improvements listed for the market area? Yes No. If No, describe: _____

Are there any adverse site conditions or external factors (sewerage, encroachments, environmental conditions, land use, etc.)? Yes No. If Yes, describe: _____

General Description	Foundation	Exterior Description	Roof/Exterior Condition	Interior	Materials/Condition
Unit: <input type="checkbox"/> Det <input type="checkbox"/> Attached/Accessory Unit	Concrete Slab <input type="checkbox"/> Crawl Space	Foundation Walls	Floors		
# of Stories: _____	Full Basement <input type="checkbox"/> Partial Basement	Exterior Walls	Walls		
Type: <input type="checkbox"/> Det <input type="checkbox"/> Att <input type="checkbox"/> Other (describe): _____	Basement Area: sq. ft. _____	Floor Surface	Ford/Finish		
<input type="checkbox"/> Finished <input type="checkbox"/> Unfinished <input type="checkbox"/> Under Const.	Basement Finish: _____ %	Columns & Corners/Posts	Bath Floor		
Drainage: (describe): _____	Outside Piping/Exit <input type="checkbox"/> Sump Pump	Window Type	Window Sill		
New Bath: <input type="checkbox"/> None <input type="checkbox"/> Partial <input type="checkbox"/> Full	Storm Drain/Refrigerated	Storm	Car Storage	<input type="checkbox"/> None <input type="checkbox"/> Store	
Roof/Age (Year): _____	Shingles <input type="checkbox"/> Soffit/Vent	Roof	Chimney	# of Chim.	
Air: <input type="checkbox"/> None <input type="checkbox"/> Heat <input type="checkbox"/> HVAC <input type="checkbox"/> A/C <input type="checkbox"/> Heat Exchanger	Acoustical # _____	Acoustical # _____	Garage	# of Cars	
Drip Edge: <input type="checkbox"/> None <input type="checkbox"/> Other	Flank	Flank	Garage	# of Cars	
Floor: <input type="checkbox"/> Marble <input type="checkbox"/> Granite <input type="checkbox"/> Carpet/Air Conditioning	Photo/Cam	Photo	Carport	# of Cars	
Finish: <input type="checkbox"/> Hardwood <input type="checkbox"/> Other	Photo	Photo	All	One	Multi-

Appraiser: _____ (Type/Over) _____ (Date/Year) _____ (Date/Year) _____ (Date/Year)

Printed name address grade condition: _____

Additional features (space energy efficient items, etc.): _____

Describe the condition of the property (including needed repairs, deterioration, renovations, remodeling, etc.): _____

Are there any physical deficiencies or adverse conditions that affect the health, soundness, or structural integrity of the property? Yes No. If Yes, describe: _____

Does the property generally conform to the neighborhood functional utility, style, condition, use, construction, etc.? Yes No. If No, describe: _____

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Collateral



What Are the Three Cs?

Capacity

Can the borrower pay?

Credit

Will the borrower pay?

Collateral

What if the borrower doesn't pay?

Risk

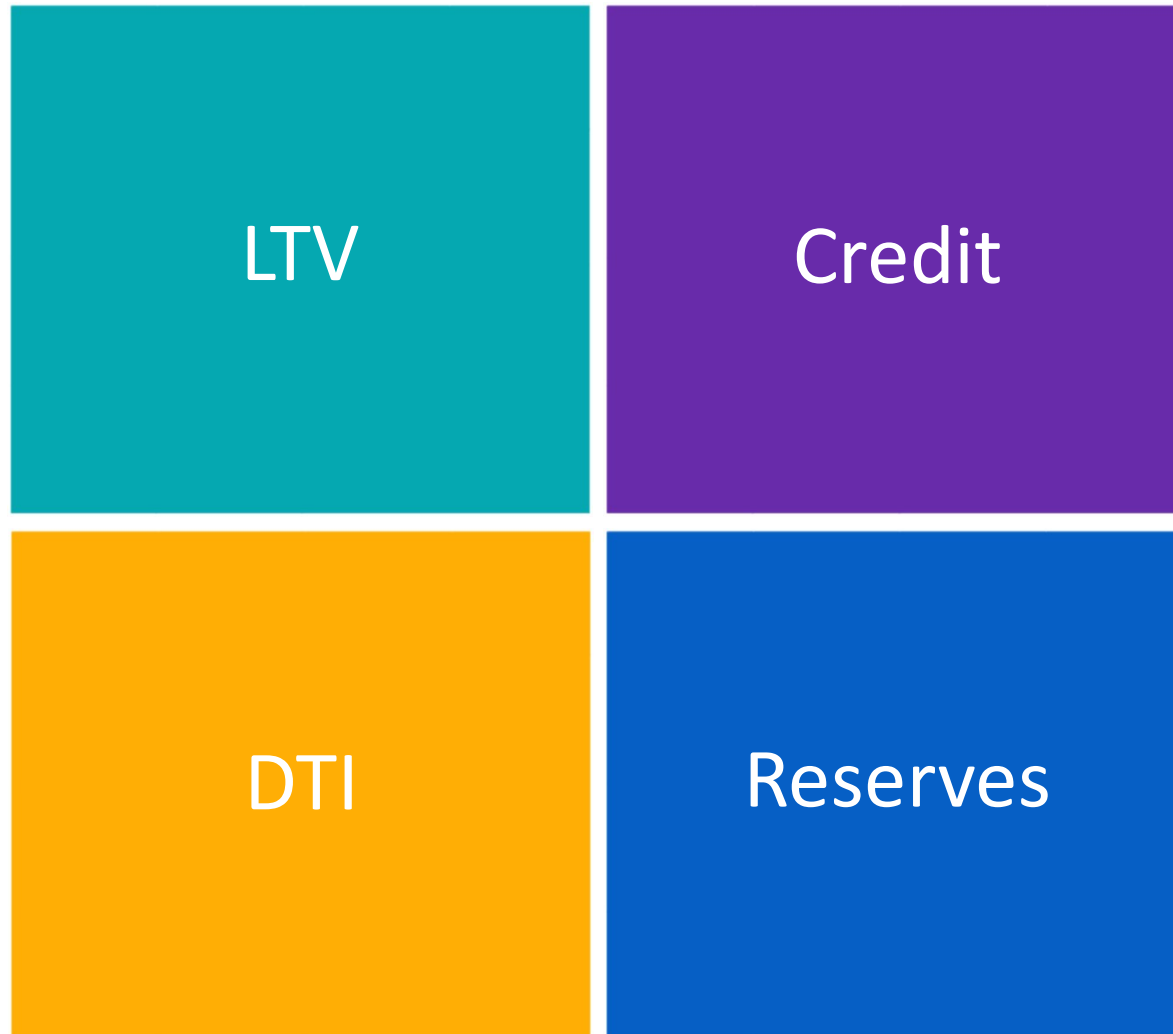


A photograph of a hand in a blue sweater carefully placing a wooden block on a tall, wobbly tower of Jenga blocks. The tower is made of light-colored wooden blocks stacked in a staggered pattern. The background is a soft, out-of-focus light blue.

Layered
Risk

Compensating
Factors

The Four Main Risk Factors



Other Risk Factors

Occupancy
Status

Property
Type

Number of
Borrowers with
Good Credit

Example of Low Risk

- 95% LTV.
- 780 credit score.
- 40% DTI.
- Three years of employment history.
- Single-family dwelling.
- Three months' PITI reserves.

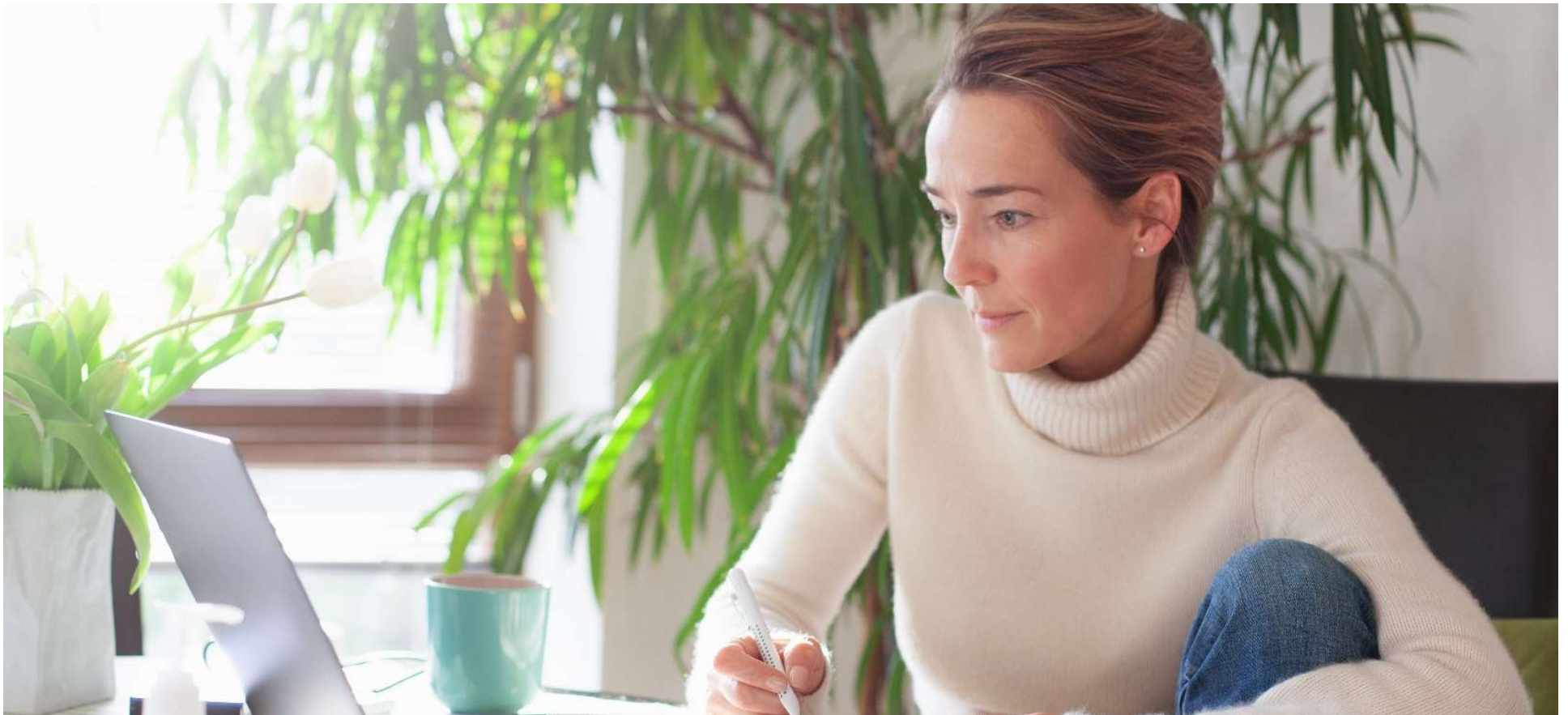


Example of Layered Risk

- 95% LTV.
- 600 credit score.
- 49% DTI.
- Two years of employment history.
- Single-family dwelling.
- Two months' PITI reserves.



Automated Risk Assessment

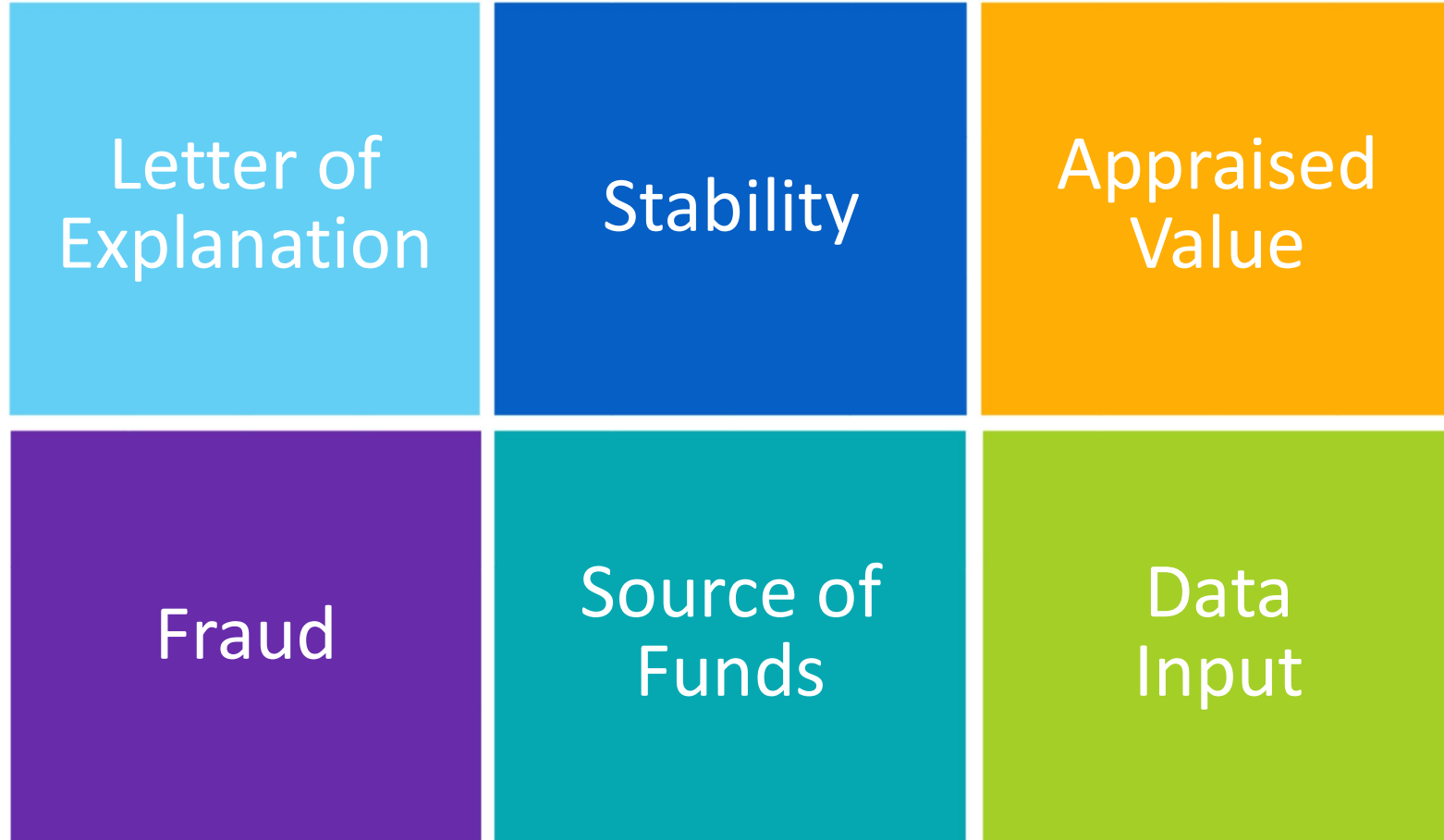


Automated Underwriting System (AUS)

Automated Underwriting System (AUS)



AUS Limitations



Mortgage Loan Risk Factors

CREDIT RISK FACTORS		NON-CREDIT RISK FACTORS	
Public Records	Credit History	Equity	LTV
Delinquent Accounts	Credit Inquiries	Liquid Reserves	Loan Term
Revolving Credit Use	Mortgage Accounts	Total Expense Ratio	Other Factors*

*Other Factors: Number of Borrowers, Occupancy Status, Property Type.

Objectives

We have now concluded the session intended to help you:

- Understand the Three Cs, including:
 - Income/Employment.
 - Assets/Reserves.
 - Ratios.
- Understand What Makes Up a Credit Score.
- Learn the Fundamentals of Mortgage Risk.



THANK YOU

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Diana Swift

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and Instructional Designer

dswift@archmi.com

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