CALL THE UNDERWRITER

HELPING SELLER-FINANCE INVESTORS STAY DODD-FRANK COMPLIANT

Understanding loan “conditions”

After we have determined the borrower(s) have adequate income to meet DTI and residual income requirements, we use loan conditions to ensure all qualification requirements are met in analyzing a borrower’s credit worthiness. Conditions are a way to answer specific questions an underwriter might have while trying to understand the credit history of a prospective borrower. Conditions are placed on the loan approval to protect the lender (Investor/seller) from future defaults or challenges of “Rebuttable Presumption”. Although placing conditions on a loan’s approval can be frustrating to the seller and time consuming, below is an explanation as to why they are in your best interest as a lender/seller.

<u>The most common conditions to understand, and how to satisfy them.</u>

Condition 304 – Verification of Rent (VOR): Borrower(s) to provide a verification of rent (**VOR**) stating Landlord’s name & address. Letter must state monthly rent of ______ has been paid for 12 consecutive months, from______ to _____ with no late or missed payments.

Purpose: A <u>credit score of less than **620**</u> is considered risky and generally sets off a RED flag that this borrower may not have a rich track record of being a reliable debt payer. We counter that assumption with the VOR. In other words, the credit score says “this guy doesn’t pay his debts reliably”, with the VOR we say, “here’s proof that this borrower has been paying rent faithfully and consistently for the past 12 months.” This rebuts the question of “Why would you (lender) extend a mortgage to someone who can’t even pay their current rent on time?”.

Condition 300 - No open lines of credit on report: Borrower to provide 2 letters of credit reference of 12 months each. Letters must show on time payments with no late or missed payments for 12 consecutive months. <u>Alternative Credit References List</u>
1. Gym membership
2. Hulu
3. Netflix

4. Life insurance
5. Daycare
6. Landscaping
7. Auto insurance (mandatory in most states)
8. Electric
9. Water
10. Cable
11. Cell phone
12. Alarm
13. Exterminator
14. Trash/Sewer
15. Buy Here/Pay Here (auto, jewelry, furniture)
16. Dental plan
17. Doctor payment plan for services

Purpose: Although too many open lines of credit can be problematic, so too, can too few lines. For inadequate open credit lines, we are helping the borrower demonstrate credit worthiness through alternative credit sources. This rebuts the claim that the borrower was loaned money despite having no demonstration of credit worthiness on the traditional credit report. Where traditional Fannie and Freddie lenders would simply deny the loan, we attempt to help the borrower establish alternative credit to the traditional credit report.

Condition 302 – Loan is HCM (High-Cost Mortgage). Defined as APR more than 6,5% above APOR of the day (street rate). Requirement: Buyers to complete a HUD approved homebuyer education course (free online) at https://www.readynest.com/homebuyer-resources/the-test Provide copy of completion certificate to CTU.

Purpose: completing this home buyer's ed course helps to protect the lender against claims of predatory lending if the borrower later defaults and claims they did not understand an HCM mortgage and were not properly educated as new home investors. Having this in the file and being able to explain your process of educating your borrower helps to paint the picture of your lending transparency and your attempts to educational your borrowers. It is also recommended that lenders create their own "HCM disclaimer" that educates the borrower about the HCM and has them sign acknowledgement.

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Condition 9000 – Credit inquiries in last 120 days. Borrower to indicate if any new credit was received as a result of the above listed credit inquiries. If so, to provide docs showing balance and monthly payments.

Purpose: To ensure the borrower does not have new monthly debt that was not shown on the credit report. We do this to ensure that the Debt-to-income ratio (DTI) we have calculated is correct. Also, we calculate a "Residual income" requirement (each state is different) and ensure all debt is counted in that figure. This guards against future default and protects the lender from claims that the borrower's true DTI was higher than calculated at the time of underwriting.