



# MGIC

THE FUNDAMENTALS OF THE  
MORTGAGE PROCESS

## Session 3 – Evaluating Credit, Capacity, Capital & Collateral



Designs for Learning



## Legal Disclaimer

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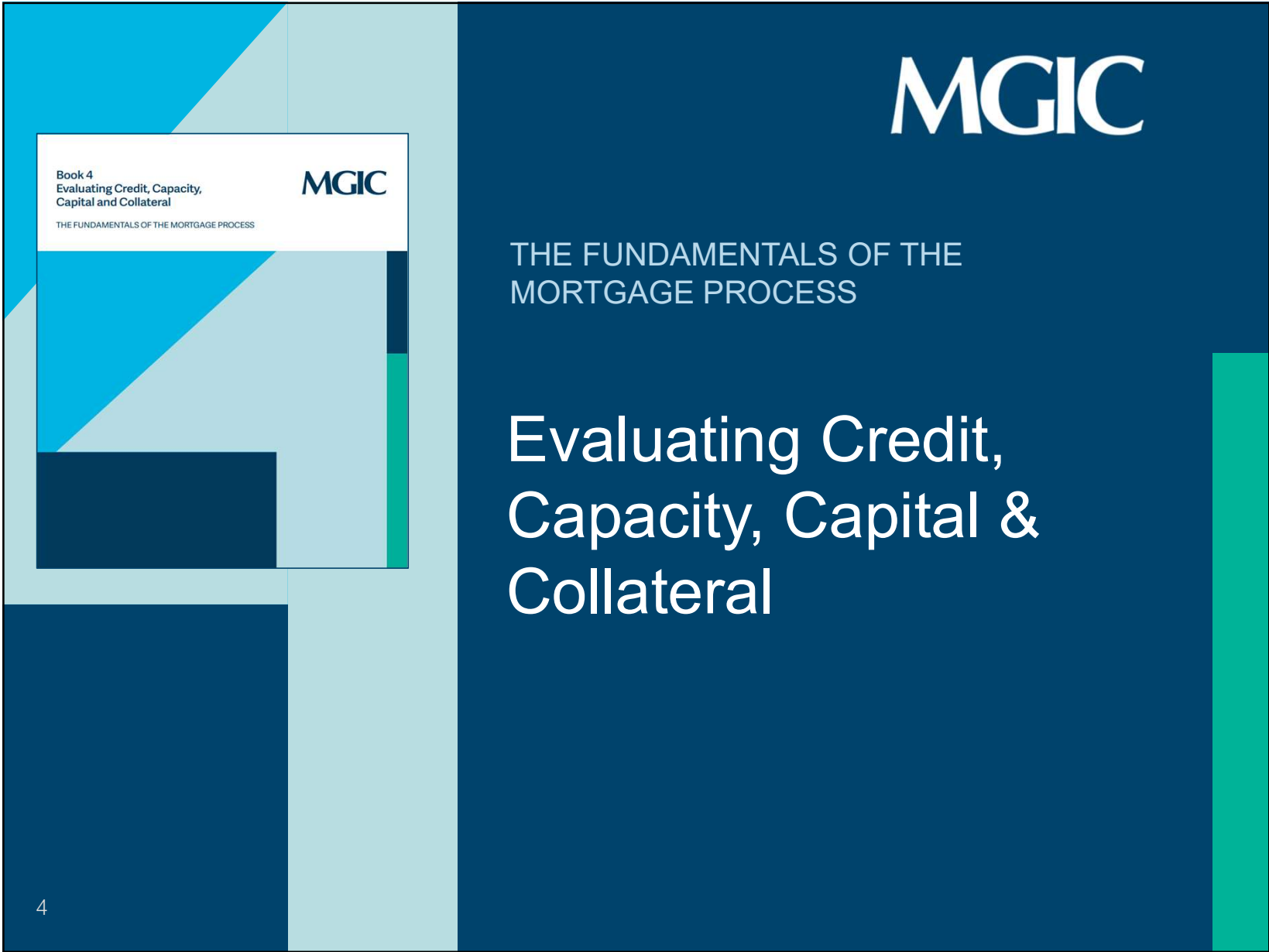
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**MGIC**



# The Fundamentals 3-Part Series

- **Session 1: Understanding The Mortgage Cycle and How Mortgage Insurance (MI) Works**
  - The Mortgage Cycle & Key Players
  - Regulatory Compliance
  - What is MI?
  - Premium Plan Options
- **Session 2: Taking the Loan Application and Processing the Loan**
  - Loan Types & Programs
  - Completing the Loan Application
  - Processing the Loan
  - Automated Underwriting
  - Uniform Underwriting & Transmittal Summary (1008)
- **Session 3: Evaluating Credit, Capacity, Capital & Collateral**
  - Underwriting – 4 Cs
  - Credit, Capacity, Capital, Collateral

The slide features a dark blue background with a teal vertical bar on the right. In the top right corner, the MGIC logo is displayed in white. Below the logo, the text 'THE FUNDAMENTALS OF THE MORTGAGE PROCESS' is written in a smaller white font. The main title, 'Evaluating Credit, Capacity, Capital & Collateral', is centered in a large white font. On the left side, there is a white rectangular box containing a thumbnail of a book cover. The book cover has a blue and white geometric design and contains the following text: 'Book 4', 'Evaluating Credit, Capacity, Capital and Collateral', 'MGIC', and 'THE FUNDAMENTALS OF THE MORTGAGE PROCESS'.

MGIC

THE FUNDAMENTALS OF THE MORTGAGE PROCESS

Evaluating Credit, Capacity, Capital & Collateral

Book 4  
Evaluating Credit, Capacity, Capital and Collateral  
MGIC  
THE FUNDAMENTALS OF THE MORTGAGE PROCESS

# The 4 Cs

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## Credit

- Borrowers' willingness to repay a loan

## Capacity

- Borrowers' ability to repay based on the amount & stability of income

## Capital

- Borrowers' investment in the property from savings & other sources

## Collateral

- Property's value & marketability to provide adequate security for the loan based on an appraisal



## Credit History

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**Is the credit history 'adequate'?**

- ✓ **Sufficient number of accounts**
- ✓ **Acceptable length of time accounts have been active**
- ✓ **Verified through traditional credit report**
- ✓ **Demonstrates borrowers' willingness & ability to repay debt**

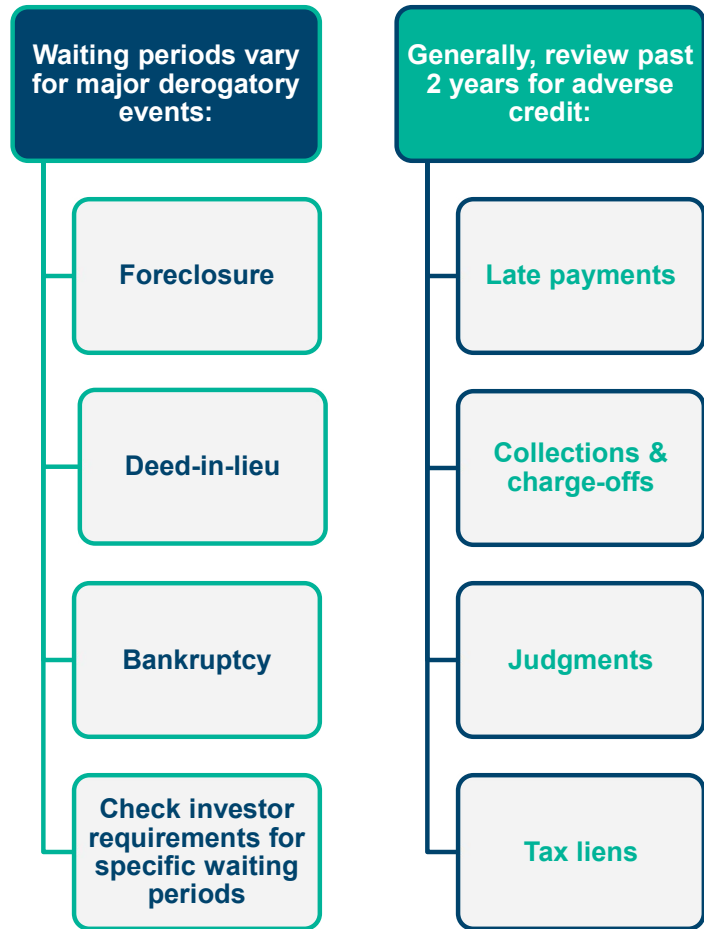
**Past credit history is indicative of future credit performance**

# Acceptable Credit



- Borrowers demonstrate willingness to pay obligations as agreed
- Managed finances over time & various circumstances
- Nontraditional credit documentation or nontraditional credit report to support timely payments
- If bankruptcy, foreclosure, deed-in-lieu or short sale are reported, then adequate waiting period and reestablished credit are required
- See Investor and/or Agency Guidelines for current requirements

# Adverse Credit





## Re-Established Credit

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- **Underwriting judgment is required to determine the cause:**
  - Lack of regard for financial obligations
  - Factors beyond borrowers' control
  - Sufficient waiting period has passed
- **Re-Established Credit:**
  - All past due accounts brought current
  - Credit accounts opened and paid as agreed
  - Demonstrates stable income and savings history
    - See Investor and/or Agency Guidelines for current requirements

## Types of Credit

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- **Traditional**

- Credit history as reflected on credit report
- Credit cards, auto loans, mortgage loans, etc.

- **Nontraditional**

- Used when borrowers have not established traditional credit
- May use utility payments, rent history, cable TV, etc., to document payment history

- **Trended Credit – in AUS DU only**

- Allows for more in-depth look at credit profile
- Displays minimum monthly payments and balances up to 24 months (e.g., revolving accounts)



## The Credit Report

- **Credit Repositories**
  - TUC: TransUnion Corp.
  - XPN: Experian
  - EFX: Equifax
- **Credit Agencies**
  - Provider of credit report
  - Uses repositories to gather credit information

# Types of Credit Reports

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## Residential Mortgage Credit Report (RMCR)

- Minimum 2 repositories
- Data researched & merged

## In-File

- Data pulled separately from each repository
- Not merged

## Merged Credit Report

- Minimum 2 repositories, merged into single report
- Not researched

## Nontraditional Mortgage Credit Report (NTMCR)

- See UW Guide



## Credit Score

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- **Predictor of loan performance**
- **Derived by statistical models that evaluate these risk factors:**
  - Payment history
  - Amount owed vs. credit limit
  - Credit history
  - New credit
  - Types of credit
- **Range from 300 - 850**
- **Higher score = lower risk**
- **Majority of scores fall between 600 - 800**

## Credit Score

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- **Each repository has its own proprietary score:**
  - Experian – Fair Isaac Score
  - Equifax – Beacon Score
  - TransUnion – Empirica Score
- **Credit scores vary by repository:**
  - May analyze different credit factors
  - Evaluation of individual risk factors varies

# Identifying Information



Sample - Residential Mortgage Credit Report (RMCR) 06/08/2020 ID: 999999500603333  
Repositories: EFX-J XPN-J TU-J Loan #: 500603333  
Prepared For: ABC Mortgage Company

APPLICANT: PETER SIMON Co-Applicant: ELIZABETH SIMON  
SSN: XXX-XX-2030 SSN: XXX-XX-9652  
Curr Addr: 12 OAKWOOD LANE PLEASANT VALLEY XY 99999

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# Credit Scores

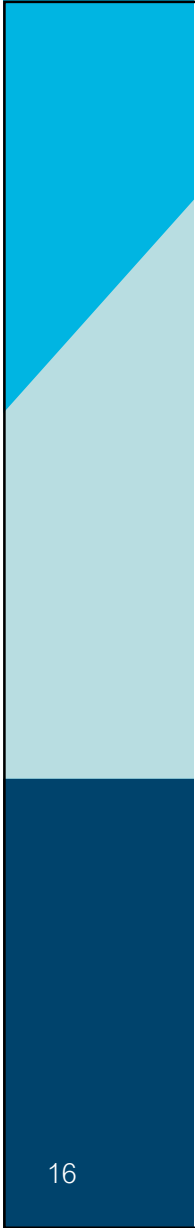


Scoring	
ECOA/Type	Score
1 EFX01 BEACON 96 SCORE	741
10 PROPORTION OF BALANCES TO CREDIT LIMITS IS TOO HIGH ON BANK OR REVOLVING ACCOUNTS	
13 LENGTH OF TIME ACCOUNTS HAVE BEEN ESTABLISHED	
1 TRU01 EMPIRICA SCORE	720
10 PROPORTION OF BALANCES TO CREDIT LIMITS IS TOO HIGH ON BANK OR REVOLVING ACCOUNTS	
1 XPN01 FAIR ISAAC SCORE	718
10 PROPORTION OF BALANCE TO HIGH CREDIT ON BANK REVOLVING OR ALL RE	
14 LENGTH OF TIME ACCOUNTS HAVE BEEN ESTABLISHED	
8 EFX01 BEACON 96 SCORE	760
10 PROPORTION OF BALANCES TO CREDIT LIMITS IS TOO HIGH ON BANK OR REVOLVING ACCOUNTS	
14 LENGTH OF TIME ACCOUNTS HAVE BEEN ESTABLISHED	
8 TRU01 EMPIRICA SCORE	733
10 PROPORTION OF BALANCES TO CREDIT LIMITS IS TOO HIGH ON BANK OR REVOLVING ACCOUNTS	
8 XPN01 FAIR ISAAC SCORE SCORE	742
10 PROPORTION OF BALANCES TO CREDIT LIMITS IS TOO HIGH ON BANK OR REVOLVING ACCOUNTS	
18 NUMBER OF ACCOUNTS DELIQUENT	

Borrower 1  
Indicator Score

Borrower 2  
Indicator Score

720 Representative Score





# Fraud Alert



File Identifications			
Name/SSN	DOB	Address	Vendor
PETER SIMON XXX-XX-2030	03/06/1970	12 OAKWOOD LANE PLEASANT VALLEY XY 99999	EFX01
PETER SIMON XXX-XX-2030	03/06/1970	12 OAKWOOD LANE PLEASANT VALLEY XY 99999	TRU01
PETER SIMON XXX-XX-2030	03/06/1970	12 OAKWOOD LANE PLEASANT VALLEY XY 99999	XPNO1
ELIZABETH SIMON XXX-XX-9652	08/01/1974	12 OAKWOOD LANE PLEASANT VALLEY XY 99999	EFX01
ELIZABETH SIMON XXX-XX-9652	08/01/1974	12 OAKWOOD LANE PLEASANT VALLEY XY 99999	TRU01
ELIZABETH SIMON XXX-XX-9652	08/01/1974	12 OAKWOOD LANE PLEASANT VALLEY XY 99999	XPNO1

Fraud Alert

No Fraud Records Found.

No Public Record Information Found.

No Fraud Records Found

- **Fraud Alert**
  - A flag placed on a credit file
  - Cautiously extend credit

# Public Record Information



File Identifications			
Name/SSN	DOB	Address	Vendor
PETER SIMON XXX-XX-2030	03/06/1970	12 OAKWOOD LANE PLEASANT VALLEY XY 99999	EFX01
PETER SIMON XXX-XX-2030	03/06/1970	12 OAKWOOD LANE PLEASANT VALLEY XY 99999	TRU01
PETER SIMON XXX-XX-2030	03/06/1970	12 OAKWOOD LANE PLEASANT VALLEY XY 99999	XPN01
ELIZABETH SIMON XXX-XX-9652	08/01/1974	12 OAKWOOD LANE PLEASANT VALLEY XY 99999	EFX01
ELIZABETH SIMON XXX-XX-9652	08/01/1974	12 OAKWOOD LANE PLEASANT VALLEY XY 99999	TRU01
ELIZABETH SIMON XXX-XX-9652	08/01/1974	12 OAKWOOD LANE PLEASANT VALLEY XY 99999	XPN01

Fraud Alert

No Fraud Records Found.

No Public Record Information Found. ←

# Credit History



2	HOME MORTGAGE CO	M	03/18	125000	Current			
	37726895909	360 M 987	03/16	0		0	0	0
			03/18	0				
History: 11111111111111111111			From: 03/16					
MORTGAGE								
ACCOUNT TRANSFERRED OR SOLD; CONVENTIONAL; CLOSED 03/18								
2	AUTO WORLD	INS	05/20	15000	Current			
	124578	72 M 500	01/19	10000		0	0	0
			05/20	500				
History: 1111111111			From: 01/19					
AUTO								
1	AUTO WORLD	INS	05/20	16000	Current			
	986532	63 M 368	02/17	4789		0	0	0
			05/20	368				
History: 1111111111111111111111111111			From: 02/17					
AUTO								
8	HIGHER EDUCATION	INS	12/19	15751	Deferred			
	1348AP9527	120 M 160	08/18	15751		0	0	0
			01/20	160				
History:			From: 08/18					
PAYMENT DEFERRED; STUDENT LOAN NOT IN REPAYMENT								
8	CREDIT CO.	REV	01/20	2000	Closed			
	51087432895	0	03/19	0		0	0	0
			01/20	0				
History: 1111			From: 03/19					
CREDIT CARD								
ACCOUNT CLOSED BY CONSUMER 12/19; ACCOUNT CLOSED AT CONSUMERS REQUEST								

- **Type of obligation**
  - Mortgages, Installment, Lease, Revolving, Open 30-day
- **History**
  - “1”s indicate timely payments
- **Defined columns for 30, 60 and 90 day ratings**
  - Talled number of times 30, 60 or 90 days late

# Inquiries



Inquiries

Date	Ecoa	Member No	Comments	Vendor
04/01/2020	1	00004343 00093256	PENTAGROUP F	TRU01 TRU01

Interviewing employer – soft inquiry

- **Hard Inquiries**
  - Occur during a credit application
  - Affect credit scores
- **Soft Inquiries**
  - Occur during a background check
  - Generally do NOT affect credit scores

## Checkpoint: Credit Report

- ✓ Does credit report information match 1003?
- ✓ Any new loans reported?
- ✓ Any major derogatory events?
- ✓ Does Credit History meet the guidelines?
- ✓ Any public records or alerts?
- ✓ Consequences of not completing checkpoints?



# Credit Resources

**Is your Credit Score making the grade?** **MGIC**  
What you need to know to pass with flying colors.

If you're thinking about buying a home, you'll need to study up on the basics of your credit score.

**5 key elements of your credit score\***

<b>35%</b>	<b>30%</b>	<b>15%</b>	<b>10%</b>	<b>10%</b>
<b>PAYMENT HISTORY</b> Do you make your payments on time?	<b>TOTAL DEBT</b> How much of your available credit has been used?	<b>LENGTH OF CREDIT HISTORY</b> How long have you had a credit history?	<b>CREDIT MIX</b> Do you have more than one line of credit?	<b>NEW CREDIT</b> Have you opened new credit recently?

\*According to FICO® scores.

**Credit Score Study Guide**

- Know the 5 key elements of your credit score (Hint: see above!).
- Understand that your credit score can affect your ability to qualify for a mortgage. Find out how at [readyneat.com](http://readyneat.com).
- Request your credit report annually to check it for accuracy. Get it at [annualcreditreport.com](http://annualcreditreport.com).
- Dispute any errors. Contact the credit bureau whose report has the mistake – online, by phone or by mail.

Equifax Experian TransUnion

**GRADING SCALE**

A	800+
B	740-799
C	670-739
D	580-669
F	<580

**HOW TO ACE THE FINAL EXAM:**

1. Open new credit accounts sparingly
2. Maintain a history of responsible use
3. Pay down debt
4. Make payments on time
5. Diversify credit mix

**AIM HIGH!**  
Shoot for the best score.

**Looking for extra credit?**  
Here's the ultimate study guide: [readyneat.com/credit-reports](http://readyneat.com/credit-reports)

**Special Event** **60 minutes**

**Credit Conversations – An Open Discussion with ARC's Mike Olden**

Recorded Session  
Available any time.

Watch now

View training details ▶

Free Credit Reports: [www.annualcreditreport.com](http://www.annualcreditreport.com)

Learn about FICO: [www.ficoscore.com/education](http://www.ficoscore.com/education)

Learn about Vantage scores: <https://vantagescore.com/consumers/>

Credit Counseling: <https://hud.gov/counseling>



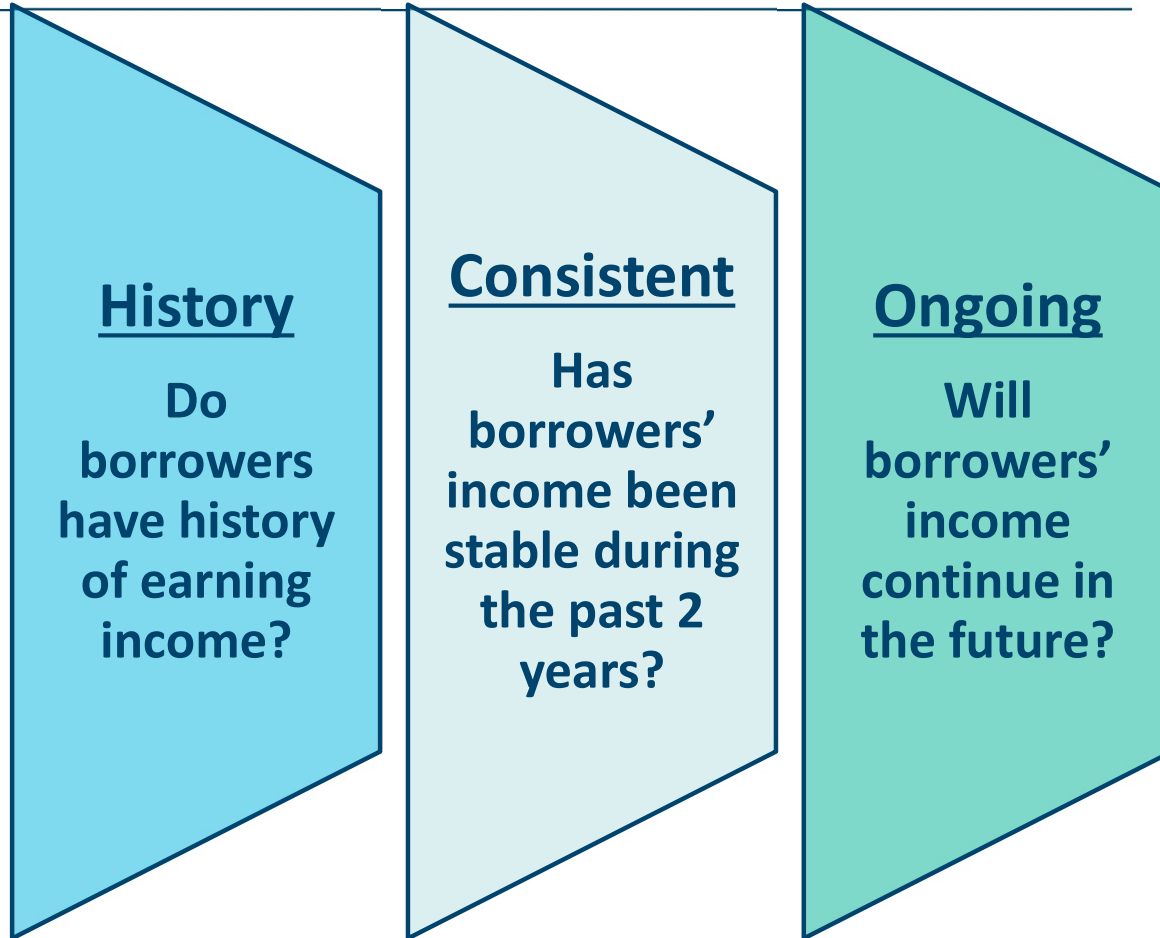
## Capacity

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- **Assess borrowers' ability to repay mortgage plus other monthly obligations**
- **Various income sources**
- **Identify documents required to verify income**
- **Calculate monthly income**



# Income



## Sources of Income

Nonvariable	Variable
<ul style="list-style-type: none"><li>• Base/salaried</li><li>• Pension</li><li>• Social Security</li><li>• Long-term disability</li><li>• Alimony</li><li>• Child support</li><li>• Note receivable</li></ul>	<ul style="list-style-type: none"><li>• Commission</li><li>• Bonus</li><li>• Overtime</li><li>• Self-Employed</li><li>• Hourly – no set hours</li><li>• Contract – by the job</li><li>• Tip</li><li>• Seasonal</li></ul>

## Base/Salaried Documentation

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- **2-year history of receipt**
- **YTD and prior years' earnings**
  - YTD paystub and
  - 1 or 2 years of W-2s

**OR**

  - Written VOE including YTD and prior 2 years' earnings

## Calculating Monthly Income

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- **Hourly:**

Hours per week x hourly rate x 52 weeks

12

- **Bi-weekly (every other week):**

Base pay X 26 weeks

12

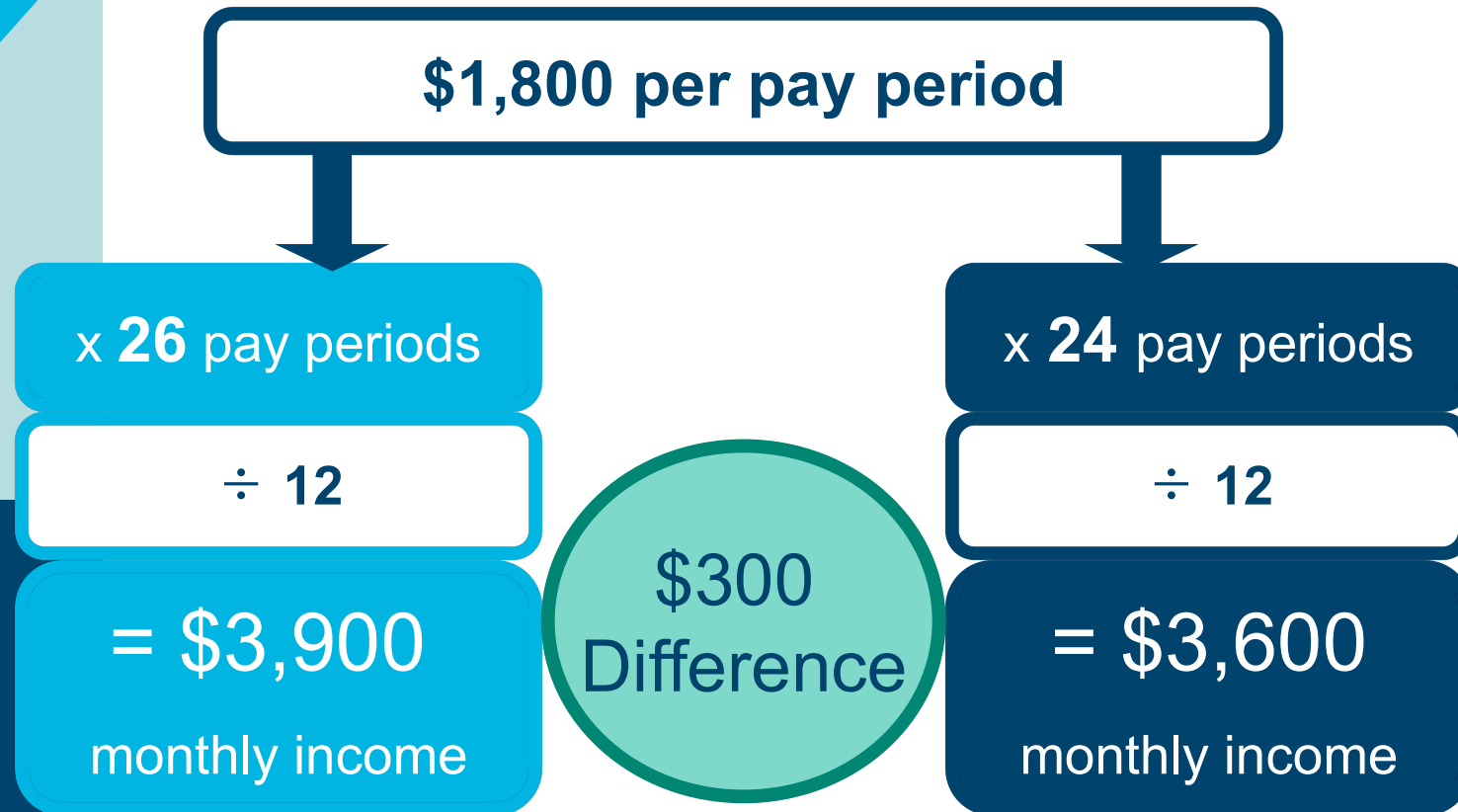
- **Semi-monthly (twice a month):**

Base pay X 24 weeks

12

## Calculating Monthly Income

Example:



# VOE

- **Breakdown**
  - Time period covered
  - Types of income earned
  - Income totals
- **Compare YTD and prior year(s) earnings**

**Part II – Verification of Present Employment**

9. Applicant's Date of Employment \_\_\_\_\_ 10. Present Position \_\_\_\_\_ 11. Probability of Continued Employment \_\_\_\_\_

12A. Current Gross Base Pay (Enter Amount and Check Period)  
 Annual     Hourly  
 Monthly     Other (Specify) \_\_\_\_\_  
 \$ \_\_\_\_\_  
 Weekly

12B. Gross Earnings

Type	Year To Date Thru _____	Past Year	Past Year
Base Pay	\$ _____	\$ _____	\$ _____
Overtime	\$ _____	\$ _____	\$ _____
Commissions	\$ _____	\$ _____	\$ _____
Bonus	\$ _____	\$ _____	\$ _____
<b>Total</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>

3. For Military Personnel Only  
 Pay Grade \_\_\_\_\_  
 Type \_\_\_\_\_ Monthly Amount \$ \_\_\_\_\_  
 Base Pay \$ \_\_\_\_\_  
 Allowances \$ \_\_\_\_\_  
 Flight or Hazard \$ \_\_\_\_\_  
 Clothing \$ \_\_\_\_\_  
 Quarters \$ \_\_\_\_\_  
 Pro Pay \$ \_\_\_\_\_  
 Overseas or Combat \$ \_\_\_\_\_  
 Variable Housing Allowance \$ \_\_\_\_\_

14. If Overtime or Bonus is Applicable, Is Its Continuance Likely?  
 Overtime  Yes  No  
 Bonus  Yes  No

15. If paid hourly – average hours per week \_\_\_\_\_

16. Date of applicant's next pay increase \_\_\_\_\_

17. Projected amount of next pay increase \_\_\_\_\_

18. Date of applicant's last pay increase \_\_\_\_\_

19. Amount of last pay increase \_\_\_\_\_

20. Remarks (If employee was off work for any length of time, please indicate time period and reason) \_\_\_\_\_

## Paystubs & W-2s

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- **ID the employer & borrower**
- **Computer-generated (or typed)**
- **From reliable 3rd party source**
- **Intranet/Internet downloads acceptable**
- **Paystub**
  - YTD earnings dated within 30 days of application
- **W-2**
  - Must cover the most recent 1 or 2 year period(s)

## Variable Income Source

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### ❖ Two-year earnings history

- < 2 years can be considered with:
  - Substantial reserves
  - Excellent credit history
  - Proposed housing similar to current
  - Long tenure of employment in field

### ❖ Analyze earnings trend

- Increasing – use 24-month average
- Declining – use lower year after stability is established
- No stability – no income can be used



# Grossing Up Non-taxable Income

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## Determining non-taxable portion of income

### ❖ Income is all non-taxable

- Child support
- Foster care
- Some alimony

### ❖ A portion of the income is tax-exempt

- Social Security

### ❖ Some benefits are non-taxable

- Military allotments
- Housing allowances

## Employment Gaps

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- **Acceptable job gaps**
  - Recent graduate
  - Family member ill
  - Military service
  - Layoff



## Checkpoint: Income

- ✓ Does employment & income information match 1003?
- ✓ Do borrowers have an income history and is it consistent?
- ✓ Will borrowers' income continue in the future?
- ✓ Have the guidelines been met? If not, what would satisfy them?
- ✓ Consequences of not completing checkpoints?



# Income Resources

The screenshot shows the MGIC website's 'Magic Minutes training series' page. At the top, there's a navigation bar with 'MGIC' logo and links for Rates, Underwriting, Origination Services, Training, Tools, Blog, and About MGIC. A 'Get a quick quote' button is in the top right. The main heading is 'Magic Minutes training series' with a subtext: 'Count on MGIC's on-demand video series to expand your mortgage industry knowledge in 15 minutes or less.' Below this, there's a breadcrumb trail 'MGIC > training >'. The featured content is 'NEW SERIES: Evaluating & Calculating Borrowers' Income', which 'Efficiently assesses whether a borrower will be able to make a new mortgage payment AND meet their other monthly obligations. Watch this new training series on evaluating and calculating borrowers' income broken down into 8 individual modules that each focus on a specific type of income.' There are six buttons for different income types: Qualifying income, Identifying hard income, Identifying non-recurring income, Verifying income, Challenging income, and Income construction. Below this is a video player for 'Qualifying income' with a description: 'This introductory video in the training series explains how to review and analyze employment and income for capacity and performance to determine if an applicant is qualified. You'll learn the difference between fixed and variable income, and how to review income documentation for eligibility.' There are 'Click on the video to watch.' and 'Back to series page >' links. At the bottom, there's a video player for 'Calculating fixed income' with the 'Magic Minutes by MGIC' logo.

**Skill-based** 60 minutes

## Evaluating and Calculating Borrower Income – Focus on Fixed Sources

Recorded Session  
Available any time.

Watch now

[View training details >](#)

**Skill-based** 60 minutes

## Evaluating and Calculating Borrower Income – Focus on Variable Sources

Recorded Session  
Available any time.







Watch now

[View training details >](#)

# Training – SEB webinars

[mgic.com/training/seb](https://mgic.com/training/seb)



<p><b>Skill-based</b> 60 minutes</p> <p><b>Self-Employed Borrowers – Focus on Getting Started and the Sole Proprietor</b></p> <p> Recorded Session Available any time.</p> <p><a href="#">Register</a> <a href="#">Watch now</a></p> <p><a href="#">View training details ▶</a></p>	<p><b>Skill-based</b> 60 minutes</p> <p><b>Self-Employed Borrowers – Focus on Partnerships and S Corporations</b></p> <p> Recorded Session Available any time.</p> <p><a href="#">Register</a> <a href="#">Watch now</a></p> <p><a href="#">View training details ▶</a></p>	<p><b>Skill-based</b> 60 minutes</p> <p><b>Self-Employed Borrowers – Focus on Corporations and Financial Statements</b></p> <p> Recorded Session Available any time.</p> <p><a href="#">Register</a> <a href="#">Watch now</a></p> <p><a href="#">View training details ▶</a></p>
<p><b>Special Event</b> 60 minutes</p> <p><b>*Evaluating Self-Employed Income During Tough Economic Times*</b></p> <p> Recorded Session Available any time.</p> <p><a href="#">Register</a> <a href="#">Watch now</a></p> <p><a href="#">View training details ▶</a></p>	<p><b>Skill-based</b> 60 minutes</p> <p><b>Self-Employed Borrowers – Focus on Rental Income</b></p> <p> 11:00am CST Recorded Session Available any time.</p> <p><a href="#">Register</a> <a href="#">Watch now</a></p> <p><a href="#">View training details ▶</a></p>	<p><b>Special Event</b> 30 minutes</p> <p><b>Can I Use Rental Income From a Business-Owned Property?</b></p> <p> Recorded Session Available any time.</p> <p><a href="#">Register</a> <a href="#">Watch now</a></p> <p><a href="#">View training details ▶</a></p>

## Capital – Assets

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- **Do borrowers demonstrate ability to save?**
- **What is borrowers' cash investment in property?**
- **Do borrowers have sufficient cash to close loan?**
- **Cash reserves?**



## Types of Assets

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- **Depository accounts (e.g., savings, checking, CDs)**
- **Sale of real property**
- **Gifts**
- **Retirement funds**
- **Business assets**
- **Stocks, bonds, mutual funds**



# Asset Documentation & Verification

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Bank statements

Online transaction histories

Verification of Deposit (VOD)

Third-party verification vendor

Closing Disclosure (CD)

Retirement funds statement

Gift letter

Desktop Underwriter® Day 1 Certainty® and Loan Product Advisor® AIM

## Sourcing Funds

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- **New Accounts and Large Deposits**

- Source of funds
  - Gift, sale of asset, loan
- Funds seasoned for minimum of 2 months

- **Earnest Money**

- Document source of funds – cancelled check, bank statements

# Large Deposits

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A single deposit > 50%  
of total monthly qualifying income for loan

Refinance – Documentation/explanation not required

Purchase – three options:

1. Verify source of deposit
2. Deduct unsourced funds from available assets
3. Verify a portion of the deposit and bring total under 50%

## Gift Funds

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- **Gift letter signed by donor, must include:**
  - Date of gift
  - Donor's name & relationship to the borrowers
  - Donor's address and phone number
  - Amount of gift (or range)
  - Repayment is not expected
- **Verify receipt/transfer of donor's funds and deposit in borrowers' account**

# Retirement Accounts

---

## IRA/SEP/Keogh and 401(k) accounts

- Most recent statement or VOD
- Ownership of account must be verified
- Confirmation that account is vested and allows for withdrawals regardless of employment status
- Vested balance, less any outstanding loans

## Business Assets

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May be an acceptable source of funds when a borrower is self-employed

- Tax returns must be reviewed
- Business cash flow analysis shows no negative impact
- Standard documentation requirements apply

# Reserves

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## What are reserves?

- **Funds available after closing**
- **Amount required varies based on:**
  - Transaction
  - Occupancy
  - Number of units
  - Number of other financed properties
  - AUS findings
  - Investor

## Checkpoint: Assets

- ✓ Does asset information match 1003?
- ✓ Do asset statements include required information?
- ✓ Does information satisfy guideline intent?
- ✓ Are any funds unacceptable?





# Asset Resources


**Skill-based** 60 minutes

## Evaluating Borrower Assets

Recorded Session  
Available any time.

Watch now

View training details ▶



### Assets and Acceptable Sources of Funds

SUCCESSFUL

Course (2 classes)

Become your company's expert on Freddie Mac's expanded requirements for assets! Efficiently determine if funds are from an acceptable source and become proficient in reviewing interested party contributions, identifying large deposits, documenting earned ...more

0 USD

VIEW CLASSES



## Collateral

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- **Appraisal**
- **Sales Contract**

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## The Appraisal

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- **Describes the property**
- **Estimates the value**
- **Identifies positive & negative factors that affect value & marketability**
- **Evaluation considers neighborhood, site, physical characteristics & property condition**

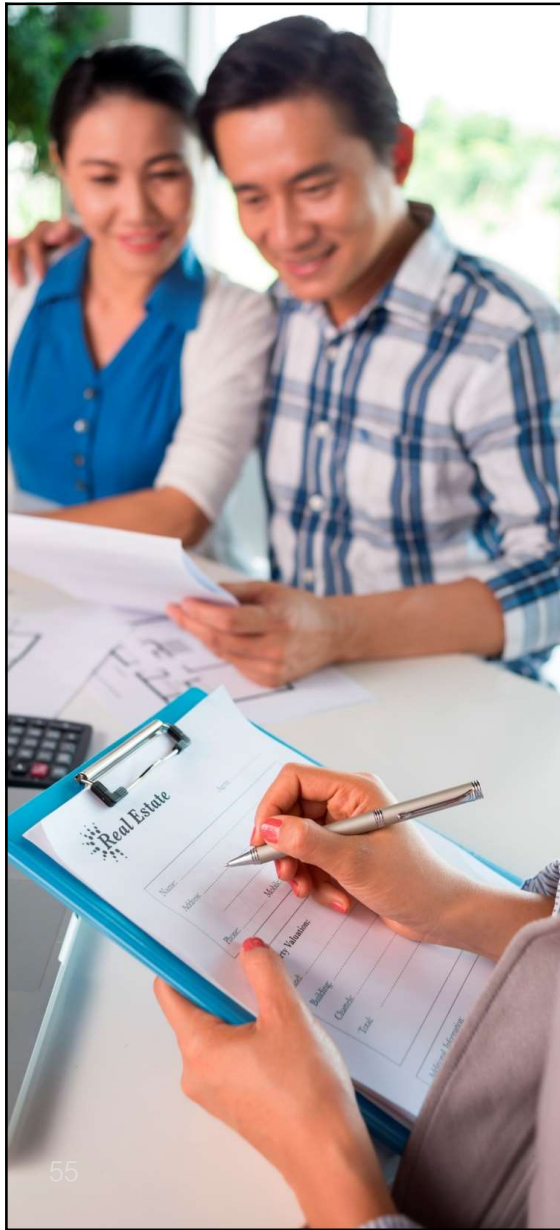
## Appraisals for One-Unit Properties

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- **Uniform Residential Appraisal Report**
  - Form 1004/70
- **Individual Condominium Unit Appraisal Report**
  - Form 1073/465
- **Small Residential Income Property Appraisal Report**
  - Form 1025/72

## Checkpoint: Appraisal

- ✓ Is property thoroughly described?
- ✓ Has the appraiser explained any unusual situations?
- ✓ Is appraiser's estimate of value consistent with description?
- ✓ Is value supported by sales of similar properties?



## Sales Contract

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- **A legally binding agreement with dates that set timelines for the loan process**

# Sales Contract

## Miscellaneous Items:

Repairs

Contingencies

Seller

Contributions

Counteroffer(s)

(Seller warrants (Map dated May 1, 2000) the property ~~is~~ (is not) located in a flood plain (Strike as applicable). Seller warrants and represents to Buyer that Seller has no notice or knowledge of any:

- (a) planned or commenced public improvements which may result in special assessments or otherwise materially affect the property.
- (b) government agency or court order requiring repair, alteration or correction of any existing condition.
- (c) underground storage tanks or any structural, mechanical or other defects of material significance affecting the property including but not limited to inadequacy for normal residential use of mechanical systems, waste disposal systems and well, unsafe well water according to state standards, and the presence of any dangerous or toxic materials or conditions affecting the property.
- (d) wetland and shoreland regulations affecting the property (Caution: see maps).

EXCEPTIONS TO WARRANTIES AND REPRESENTATIONS IN (a) - (d) ABOVE: N/A

The following items shall be prorated as of the date of closing: general taxes, rents water and sewer use charges, homeowners' association assessments, fuel and N/A.

Any income, taxes, or expenses through the day of closing accrue to Seller.

General taxes shall be prorated at the time of closing based on the net general taxes for the current year, if known, otherwise on the net general taxes for the preceding year.

CAUTION: If the property has not been fully assessed for tax purposes, or reassessments completed or pending, tax proration shall be on the basis of \$ 2,500 estimated annual tax.

Special assessments, if any, for work on site actually commenced or levied prior to date of this offer shall be paid by Seller. All other special assessments shall be paid by Buyer. (Caution: Consider a special agreement if area assessments or homeowners' association assessments are contemplated.)

Seller shall provide to Buyer at Seller's expense at least three (3) business days before closing, Seller's choice of:

1. An abstract of title prepared by an attorney or abstract company, or
2. A Commitment from a title insurance company licensed in Pleasant Valley to issue title insurance in the amount of the purchase price upon recording of proper documents;

showing title to the property as of a date no more than 15 days before such title proof is provided to Buyer to be in the condition called for in this offer, and further subject only to liens which will be paid out of the proceeds of the closing and standard title insurance exceptions or abstract certificate limitations, as appropriate. Buyer shall notify Seller of any valid objection to title in writing by closing. Seller shall have reasonable time, but not exceeding 15 days, to remove the objections, and closing shall be extended as necessary for this purpose.

If this offer provides for a land contract, prior to execution of the land contract, Seller shall provide the same evidence of title as required above and written proof, at or before execution, that the total underlying indebtedness, if any, is not in excess of the proposed balance of the land contract, and that the payments on this land contract are sufficient to meet all of the obligations of Seller on the underlying indebtedness.

If the transaction fails to close and the parties fail to agree on the disposition of earnest money, then earnest money held by broker shall be disbursed as follows:

1. To Buyer, unless Seller notifies Buyer and Broker in writing no later than 15 days after the earlier of the Buyer's written demand for return of the earnest money or the date set for closing, that Seller elects to consider the earnest money as liquidated damages or partial payment for specific performance.
2. To Seller, subject to amounts payable to broker, provided the above notice is given and neither party commences a lawsuit on this matter within 30 days after receipt of the notice.

In making the disbursement, the broker shall follow applicable state law procedures. Disbursement of earnest money does not determine the legal rights of the parties in relation to this agreement. Both parties agree to hold the broker harmless from any liability for good faith disbursement of earnest money in accordance with this agreement or present Department of Regulation and Licensing regulations concerning earnest money.

If the property is damaged by fire or elements prior to time of closing in an amount of not more than five percent the selling price, Seller shall not be obligated to repair the property and restore it to the same condition that it was on the date of this offer. If such damage shall exceed such sum, this contract may be cancelled at option of Buyer. Should Buyer elect to carry out this agreement despite such damage, Buyer shall be entitled to the insurance proceeds relating to damage to property; however, if this sale is by land contractor or a mortgage to Seller, the insurance proceeds shall be held in trust for the sole purpose of restoring the property.

SPECIAL PROVISIONS: Buyer to obtain acceptable Home Inspection report within 5 business days of accepting offer.

Seller and Buyer agree to act in good faith and use diligencies in completing the terms of this agreement. This agreement binds and insures to the benefit of the parties to this agreement and their successors in interest.

Peter Simon (buyer) Elizabeth Simon (buyer)  
 Buyer's Social Security No. XXX-XX-2020 Buyer's Social Security No. XXX-XX-9652

THIS OFFER IS HEREBY ACCEPTED, THE WARRANTIES AND REPRESENTATIONS MADE HEREIN SURVIVE THE CLOSING OF THIS TRANSACTION, THE UNDERSIGNED HEREBY AGREES TO SELL AND CONVEY THE ABOVE-MENTIONED PROPERTY ON THE TERMS AND CONDITIONS AS SET FORTH AND ACKNOWLEDGES RECEIPT OF A COPY OF THIS AGREEMENT.

Dated: May 25, 20 XX Sam Seller (seller)  
 Offer is rejected (Seller initial) \_\_\_\_\_ Seller's Social Security No. XXX-XX-7890 (seller)  
 Offer is countered (Seller initial) \_\_\_\_\_ Seller's Social Security No. \_\_\_\_\_ (seller)

This offer was drafted by (Licensee and firm) Home Realty  
 It was presented to Seller Jim Brown on May 24, 20 XX at 9:00 a.m.

COMMISSION EARNEST MONEY RECEIPT  
 Broker acknowledges receipt of initial earnest money as per above offer.  
May 24, 20 XX Home Realty Broker  
 (By) J. Brown



## Checkpoint: Sales Contract

- ✓ Does information on contract match 1003?
- ✓ Is contract signed by all involved parties or certified by escrow company, if applicable?
- ✓ Are any contingencies noted (i.e., sale of current home)?
- ✓ Does contract reference chattel property?
- ✓ Are any sales concessions or contributions noted?

# Collateral Resources

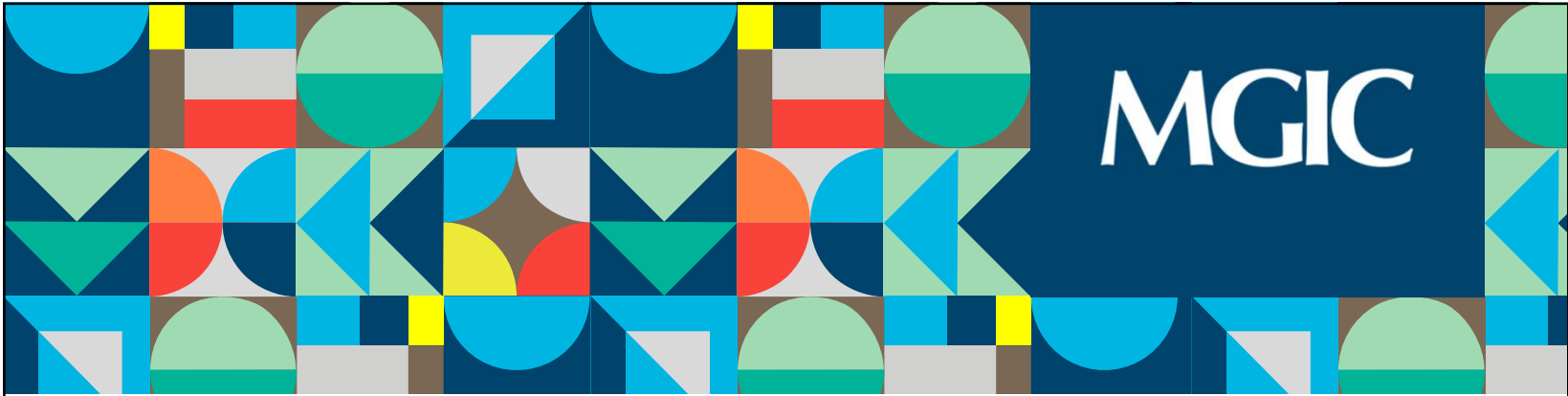
Skill-based	Skill-based
<p data-bbox="877 548 1010 574">90 minutes</p> <h2 data-bbox="485 626 978 667">How to Review an Appraisal</h2> <p data-bbox="772 781 968 837">Recorded Session Available any time.</p> <p data-bbox="795 873 911 899">Watch now</p> <p data-bbox="615 1045 877 1071">View training details ▶</p>	<p data-bbox="1562 548 1694 574">60 minutes</p> <h2 data-bbox="1171 626 1623 708">Understanding the Condo Appraisal</h2> <p data-bbox="1171 824 1367 881">Recorded Session Available any time.</p> <p data-bbox="1194 917 1310 943">Watch Now</p> <p data-bbox="1297 1045 1560 1071">View training details ▶</p>



# Summary

## The 4 Cs

- **Credit** – Willingness to repay
- **Capacity** – Ability to repay
- **Capital** – Investment in property
- **Collateral** – Security for loan



**Thank You.**  
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