

Book 4
**Evaluating Credit, Capacity,
Capital and Collateral**

MGIC

THE FUNDAMENTALS OF THE MORTGAGE PROCESS

The background of the page is composed of several large, overlapping geometric shapes in shades of blue and teal. A bright blue triangle is in the top-left corner. A light blue trapezoidal shape is in the center. A dark blue rectangle is at the bottom-left. A teal vertical bar is on the right side. A dark blue rectangle is at the top-right.

Introduction

It all starts with the dream of owning a home. Consumers will often turn to you, the loan originator, for help turning that dream into a reality.

Consumers look to you, a member of the mortgage industry, for expertise and guidance as they navigate the mortgage process. But where can you go for guidance?

At MGIC, we know how many steps, people, processes and rules are involved in the whole Mortgage Cycle. And we know that in today's constantly evolving and heavily regulated market, it's more important than ever to stay on top of changes. That's why we prepared this program: *The Fundamentals of the Mortgage Process*.

Fundamentals breaks down the main components of the mortgage process, and explores and explains each piece. We'll walk you through everything from loan origination and closing to servicing and selling. You'll also learn how The 4 Cs of the mortgage industry – Credit, Capacity, Capital and Collateral – can help determine whether a consumer will be a successful homeowner.

Once you have completed this course, you can better position yourself as an expert to your customers. You'll have the preparation and confidence to successfully:

- Explain to consumers how The Four Cs will affect their ability to purchase and own a home
- Preapprove and prequalify consumers
- Help consumers understand their loan options
- Guide consumers through the loan application process
- Process loans in order to make faster, prudent underwriting decisions

The mortgage business is a risk-based business. But the more you know and understand about the process, the more you can help minimize that risk for your company and your customers – and the more it will increase your success as a mortgage professional. We've put all the information you need in a convenient, easy-to-read package.

If you have questions about any of the information presented in *The Fundamentals of the Mortgage Process*, please contact your MGIC account representative, mgic.com/contact.

Symbol Key

We use the following icons throughout the *Fundamentals* program to highlight details, tips and shortcuts that will help you better understand the mortgage cycle.



Dictionary: Industry jargon and acronyms explained



File It: Important documents you must include in the loan file



Take Note: Information, shortcuts or exercises that can make your job easier



Checkpoint: Helpful review points to help you ensure you've got everything you need to complete the loan file



Check This Out: Information about MGIC resources relative to the topic at hand



Book 1
Understanding
the Mortgage Cycle



Book 2
Taking the Loan
Application



Book 3
Processing the
Loan



Book 4
Evaluating Credit,
Capacity, Capital
and Collateral



Book 5
Understanding
How Mortgage
Insurance Works

BOOK 4

Evaluating Credit, Capacity, Capital and Collateral

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Although we believe the information set forth in this publication is generally accurate, the information may be outdated due to the rapidly changing nature of the residential mortgage industry, and we do not warrant the accuracy, reliability or completeness of any information contained in this publication.

The information in this publication is culled from a variety of business and mortgage industry sources. Attribution is given where deemed necessary. Opinions and insights expressed herein do not necessarily represent our views.

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Making an Informed Underwriting Decision

The processor's diligent groundwork has prepared us for the Underwriting stage of the Mortgage Cycle (page 44), where all of the bits and pieces of data and documentation come together.

Here, the underwriter applies keen analytic skills to measure The 4 Cs – Credit, Capacity, Capital and Collateral – to reveal the big picture and soundly answer the borrowers' request for a mortgage loan.



The 4Cs

Credit: The borrowers' willingness to repay the loan based on their prior use of credit

Capacity: The borrowers' ability to repay based on the amount and stability of their income

Capital: The borrowers' investment in the property from savings and other sources

Collateral: Whether the property's value and marketability provide adequate security for the loan

First up is Credit, the borrowers' willingness to repay the loan based on their prior use of credit. At the end of this section, you will be able to:

- Define traditional and nontraditional credit
- Identify the 7 key sections of a credit report
- Identify key information necessary for evaluating creditworthiness and willingness to repay debt

Throughout this book:

- The role of the underwriter will be played by you
- "Borrowers" refers to both multiple borrowers or a single borrower

Credit Risk: Measuring Willingness to Repay

How likely are the borrowers to repay their mortgage? That's the big question. That's where the gamble lies. That's where evaluating their credit comes in.

Credit quality is one of the most important indicators in determining how a loan will perform. Experience shows that the number of mortgages that fail increases dramatically as the number of adverse borrower credit ratings increases.

Credit History

That's why it's so important to evaluate each prospective borrower's credit history – especially for those with low-down-payment loans. As an underwriter, you need to consider all available information to determine whether the borrowers have:

- Demonstrated a consistent willingness to pay obligations as agreed, and
- Proven their ability to manage their finances over time and under various circumstances

Those who have are more likely to repay their mortgages – that is, more likely to be successful homeowners.

As you review your borrowers' credit quality, your concern will lie more with the overall pattern of making payments rather than an occasional late payment that isn't necessarily due to a disregard for credit obligations.

Individual borrowers should have adequate credit histories defined by the number of accounts and the length of time they have used the accounts.

Established credit: Borrowers with established credit have a history you can verify through traditional credit reports.

Generally, a credit score is an indicator of a borrower's payment history. Typically, investors define acceptable credit scores.

Non-established credit: A borrower whose credit cannot be verified through traditional sources is considered to have non-established credit. Use nontraditional credit references for these borrowers. See Credit Documentation on page 4.

No credit history: In general, borrowers with no credit history available pose a higher risk simply because there is no information to substantiate their ability to manage debt. It's difficult to make a prudent underwriting decision without a credit history.

Trended credit data: This credit data allows for a more thorough analysis of the borrower's credit history. With trended credit data provided by the credit repositories, you can view the monthly payment amounts a consumer makes over time. This allows you to determine whether the borrower tends to pay off revolving credit lines (such as credit cards) each month, or tends to carry a balance from month-to-month while making minimum or other payments.

Re-established credit: When the credit report indicates borrowers have a history of late payments or a significant adverse event (e.g., bankruptcy), they must re-establish acceptable credit.

Where there are late payments or adverse credit events, you'll need to use your underwriting judgment to determine the borrowers' intent – whether payments were late due to a lack of regard for financial obligations, or to factors beyond the borrowers' control. Look at the frequency and timing of late payments, why they occurred, their severity and the type of account. Give additional consideration to borrowers who demonstrate stable income and a savings history.



The borrowers' reasons for failure to pay as agreed must be reasonable, corrected and unlikely to recur. The borrowers should provide these reasons in a Credit Explanation Letter, including time frames that match the time of the delinquency stated in their credit report.

Adverse credit history: Review the past 7 years for major derogatory credit events such as bankruptcy and foreclosures. Take a solid look at the past 24 months for judgments, tax liens, collections, charge-offs and repossessions.

Check investor requirements for guidelines on waiting periods for specific adverse credit events.

- **Bankruptcy**

Chapter 7 or "liquidation" bankruptcy: Overly indebted individuals or businesses liquidate assets to pay off as much debt as possible. Any remaining unpaid debt is discharged.

Chapter 11 or "corporate" bankruptcy: Overly indebted businesses – or occasionally individuals with substantial debts and assets – are able to continue to function and retain control and ownership of assets while they pay off debt in accordance with a reorganization or repayment plan they've worked out with creditors.

Chapter 13 or "wage earners" bankruptcy: Overly indebted individuals with a regular source of income are able to retain control and ownership of assets while they repay all or part of their debt in accordance with a repayment plan they've worked out with creditors.

Chapter 12 bankruptcy: Similar to Chapter 13 bankruptcy, Chapter 12 applies only to farmers and fishermen.

- **Deed-in-lieu**

A transaction in which the deed to a real property is transferred back to the loan servicer. Credit reports typically identify a deed-in-lieu event through Remarks Codes such as "Forfeit deed-in-lieu of foreclosure"

Note: All creditors or credit agencies may not accurately or consistently report deed-in-lieu transactions and pre-foreclosure sales in the same manner.

- **Foreclosure**

The process of taking possession of a mortgaged property as a result of the mortgagor's failure to keep up with payments.

- **Judgment**

A court order to pay someone a specified amount of money. Typically, borrowers must pay any open judgments, garnishments and outstanding liens stated in the Public Records section of the credit report at or prior to closing. In general, investors require you to document the satisfaction of these liabilities and verify funds sufficient to satisfy them.

Credit Documentation

Your processor has gathered credit documentation to substantiate your borrowers' credit history using either:

- **Traditional documentation:** Includes any type of credit on a credit report, such as credit cards, retail accounts, auto loans and mortgage debt
- **Nontraditional documentation:** For borrowers who have not established traditional credit; includes alternative information to document credit history, such as:
 - Receipts for current and previous rent payments
 - Verification of utility payments, such as electrical, cable TV, cell phone, etc.

Many investors require nontraditional credit to be reported on a nontraditional credit report.



Authorized user: When a credit account owner permits another person, typically a family member who is managing credit for the first time, to have access to use an account, the user is referred to as an "authorized user" of the account.

The practice is intended to help related individuals legitimately establish a credit history and credit score based on the account and payment history of the account owner, even though the authorized user is not the account owner.

The Credit Report

The credit report offers a unique, 2-dimensional perspective of the borrowers' past and present regard for credit. As an underwriter, you can use their historical repayment patterns and their current state of affairs to make an educated prediction of their future respect and regard for credit.

The 3 national credit repositories – Equifax, TransUnion and Experian – maintain centralized credit records on consumers. These repositories receive information from virtually all businesses that extend credit to consumers and provide credit reports to whomever needs to evaluate individual consumers' creditworthiness.



All credit reports for an individual borrower must not be more than 120 days old as of the mortgage note date.

The most common types of reports used in the mortgage industry include:

- **Residential Mortgage Credit Report (RMCR):** Often referred to as a "standard factual report," the RMCR obtains information from at least 2 credit repositories and merges it into a single report. Information is researched and updated to include employment, residence and public records. This typically is the most expensive option. If a credit reporting agency has incomplete information, discovers the borrower might not have disclosed all information that should be found in public records, or obtains information indicating the possible existence of undisclosed credit records, it must interview the borrower to obtain additional information to provide an accurate report or perform additional research to verify whether purported undisclosed records actually exist.

- **In-File Credit Report:** Information is taken separately from 1 or more credit repositories with no merging, editing, updating or confirmation of employment, residence or public records. Request separate reports from each credit repository. These reports typically cost less than the RMCR
- **Merged Credit Report:** This report draws data from 2 or more credit repositories and then matches and merges into a single report. Information such as residence, employment, etc., is not confirmed or updated. This option is usually priced somewhere between the RMCR and the In-File report
- **Non-Traditional Mortgage Credit Report (NTMCR):** Some investors require NTMCRs for borrowers who have not yet established a credit history or who do not use traditional credit. Do not use an NTMCR to enhance the traditional credit history of borrowers with poor payment records
- **Credit supplement:** Credit reporting agencies issue supplements to an original credit report after a consumer has corrected a mistake with factual evidence or in the event an account required more current reporting
- **Disputed account:** The Fair Credit Reporting Act (FCRA) outlines the process consumers can follow to dispute inaccurate or outdated tradelines in order to have them removed from a credit report

The look and layout of credit reports vary, depending on the type of report you request and the credit reporting agency providing it, but the information presented is similar.

Credit reports contain 7 key sections that provide insight into your borrowers' credit risk profiles:

- Identifying information that provides borrower names, Social Security numbers and address along with an overall credit summary
- Credit scores for assessing your borrowers' credit quality
- Identifying information that provides additional details about the borrowers
- Fraud alerts for borrowers who are victims of fraud
- Public record information, which identifies state and county court records related to bankruptcies, judgments, etc.
- Credit history, which provides greater detail about the borrowers' use of credit
- Inquiries, which identifies credit grantors who obtained a copy of your borrowers' credit reports

It's important to become familiar with the different types of reports so you can locate key information quickly and easily.



Using the information on the following pages, complete the Navigating the Credit Report exercise on page 32 to practice locating pertinent information.

Navigating the Credit Report

 Sample - Residential Mortgage Credit Report (RMCR) 06/08/2020 ID: 99999500603333
 Repositories: EFX-J XPN-J TU-J ① 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

** CREDIT SUMMARY **

	Balance	Payments	Limits	# Trades	30	60	90
Revolving	1121	82	8500	4	1	0	0
Installment	30540	868	46751	3	0	0	0
Real Estate	116850	931	118000	2	0	0	0
Open / Other	0	0	0	0	0	0	0
Total	148511	1881	173251	9	1	0	0
# Inquiries	1	# Public Records	0	# Bankruptcies	0		
		Oldest Date	03/01/15	# Satisfactories	8		
				Past Due	0		

② 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 REVOLVING ACCOUNTS	
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	

 ABC Mortgage Company Loan #: 500603333
 1000 ANY STREET, SUITE 200 Date Received: 06/08/20
 PLEASANT VALLEY, XY 99999 Date Printed: 06/08/20
 Date Revised: 06/08/20

1 Identifying information: This section provides critical information that identifies each borrower. It should match the information on the Loan App, including:

- Applicant names, including spouse, if applicable
- Nicknames, aliases (AKAs)
- Social Security number
- Current address

It will also indicate whether the report is a joint report, combining both borrowers' credit history, or an individual report with each borrower's credit history provided separately.

The credit report will provide additional identifying information later on in the document.

2 Credit Score: Credit scores may or may not appear on the credit report, depending on the type of report you ordered per your company or investor requirements.

If they are on the report, they provide a way of quickly assessing the borrowers' credit quality. Credit repositories arrive at these scores by evaluating risk factors through a series of automated statistical models.

The resulting numeric score indicates the likelihood of borrowers repaying their mortgage in a timely manner. Scores typically range from 300 to 850. (The majority of scores you'll come across will range from 600 to 800.) The lower the credit score, the greater the risk associated with the likelihood to repay.

Fannie Mae and Freddie Mac recommend that lenders obtain a minimum of 2 credit scores for every applicant, but prefer 3 scores, if possible. Obtaining multiple scores allows for variations in the manner in which credit is reported. Lenders can then select a representative or indicator score to use in underwriting the borrowers' loan.

A credit score takes into account a variety of factors, such as:

- Payment history
- Amounts the borrowers owe vs. their credit limit
- Credit history
- Types of credit
- New credit

Credit scores will vary based on these factors and how each repository's scoring models weighs them. For example, consumers who have not been using credit very long will be factored differently than those who have. In addition, as information in a credit report changes, so does the importance of any factor in determining the credit scores.

Which Credit Score to Use

Example: 1 borrower / 2 scores

Credit Repository	Borrower's Credit Score
TransUnion	680
Equifax	674

If 2 scores are provided, the indicator score is the lower of the 2 scores – 674 in this case.

Example: 1 borrower / 3 scores

Credit Repository	Borrower's Credit Score
TransUnion	675
Equifax	685
Experian	666

If 3 scores are provided for 1 borrower, drop the highest and lowest scores (685 and 666). The remaining score is the indicator score – 675 in this example.

Example: 2 borrowers / 3 scores each

Credit Repository	Credit Score	
	Borrower A	Borrower B
TransUnion	676	662
Equifax	660	685
Experian	654	690

If 3 scores are provided for each borrower, drop the highest and lowest scores (676 and 654 for Borrower A; 690 and 662 for Borrower B).

Then compare the 2 remaining scores (660 for Borrower A; 685 for Borrower B). The lower of the 2 is the representative score – 660 in this example.

Navigating the Credit Report (continued)

Applicant 3		Co-Applicant	
Input Information: PETER SIMON SSN: XXX-XX-2030 DOB: 03/06/70		Input Information: ELIZABETH SIMON SSN: XXX-XX-9652 DOB: 08/01/74	
12 OAKWOOD LANE PLEASANT VALLEY XY 99999 SINCE: 04/01/16		12 OAKWOOD LANE PLEASANT VALLEY XY 99999 SINCE: 04/01/16	
Previous Address: (ADDRESS)		Previous Address: (ADDRESS)	
PREVIOUS ADDRESS: (ADDRESS)		PREVIOUS ADDRESS: (ADDRESS)	

EMPLOYMENT INFORMATION			
Present Employment: FRANKLIN ELEMENTARY Since: 09/01/10		Present Employment: WEBVISION Since: 05/10/02	
Previous Employment (EMPLOYMENT)		Previous Employment (EMPLOYMENT)	

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

4 Fraud Alert			

No Fraud Records Found.			

5 No Public Record Information Found.			

3 Identifying information: This section provides additional detail identifying the borrowers, including:

- Previous addresses
- Current and previous employers
- Date of birth

4 Fraud alert: The FCRA requires credit repositories to add fraud alerts to the credit files of consumers who believe they have been a victim of fraud, including identity theft. A fraud alert is a cautionary flag placed on a credit file to notify lenders and creditors to take special precautions to ensure the consumer's identity before extending credit or making changes to existing accounts.



Fraud detection services: Lenders and creditors may subscribe to fraud detection services, which report red flags or inconsistencies in a borrower's credit report. Each credit repository has its own fraud detection service or product: FraudIQ® from Equifax, Fraud ShieldSM from Experian and IDVisionSM from TransUnion.

Perform due diligence on all credit report fraud alerts and notifications. Refer to investor guidelines for specific requirements.

FraudIQ® is a registered trademark of Equifax. Fraud ShieldSM is a service mark of Experian. IDVisionSM is a service mark TransUnion LLC.

5 Public record information: This section identifies state and county court records related to bankruptcies, foreclosures, tax liens or judgments. In some states, the credit report will list overdue child support payments.



Typically, borrowers must pay any open judgments, garnishments and outstanding liens stated in the Public Records section of the credit report at or prior to closing. In general, investors require you to document the satisfaction of these liabilities and verify funds sufficient to satisfy them.

Navigating the Credit Report (continued)

6 ** Credit History **							
E	Creditor	Type	Date Rptd	Hi Cred	Status	MR	Vendor
C	Account #	Terms	Date Open	Balance		30	90
O			Last Actv	Payment	Past Due	Amount	
A							
1	AMERICAN MORTGAGE	M	05/20	118000	Current		
24789		360 M 931	04/18	116850	0	0	0
			05/20	931			
	History: 11111111111111111111		From: 04/18				
	MORTGAGE						
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: 11111111111111111111		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: 11111111111111111111		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						
8	ACME CREDIT	REV	05/20	1500	Current		
60190024554		32	11/18	121	0	0	0
			05/20	32			
	History: 1111111111111111		From: 11/18				
	CHARGE ACCOUNT						
3	GAS CARD	REV	05/20	2000	Current		
8711543982		0	06/18	0	1	0	0
			05/20	0			
	History: 11111111111121111111		From: 06/18				
	CREDIT CARD						
8	DISCOVER CARD	REV	05/20	5000	Current		
97531246890		50	06/18	1000	0	0	0
			05/20	50			
	History: 1111111111111111111111111111		From: 06/18				
	CREDIT CARD						

6 Credit history: This section lists the borrowers' current and past credit accounts or tradelines with banks, retailers, credit card issuers, lenders and other credit issuers. The credit history section indicates:

- Whether anyone else besides the applicant, such as a spouse or cosigner, is responsible for paying the account
- The date the account was opened
- The credit limit or loan amount
- The account balance
- The monthly payment, if applicable
- The terms or manner in which the borrowers will repay or have repaid the accounts

Accounts are identified by type, denoted by a letter code or an abbreviation:

- R or REV denotes a revolving credit account, like a MasterCard or VISA
- I or INS indicates installment credit, such as an auto loan
- O indicates an open account, which requires account owners to pay off the balance each month – for example, American Express
- M denotes a mortgage loan

Credit reports usually include the meaning of the codes.

Accounts are rated, based on the borrowers' timely repayment of debt. These ratings can vary among different credit reports:

- **A series of numbers or characters representing months:**

Some credit reports use ratings like 00111111011 or 00XXXXXXXXXX, where:

- A 1 or an X indicates payments made on time
- 0 denotes a zero balance for the month
- Number 2 through 9 indicate varying degrees of delinquency

- **Defined columns for 30-, 60- and 90-days late ratings:**

The report tallies the number of times a borrower was 30, 60 or 90 days late under the column headings. For example, 1/2/0, indicates 1 payment was 30 days late; 2 payments were 60 days late; and 0 were 90 days late

- **Combining the rating with the account type:** You may see an account coded R2, R1, M2, I9 and so on. Anything other than a 0 or a 1 listed after the account type indicates delinquent credit at some point in the payment history

- **Collections:** The report usually identifies collections separately at the end of the listing of credit accounts. Collections occur when the creditor hires a collection agency to pursue the borrowers for payment of the debt

- **Charge-off account:** A charge-off occurs when the consumer has not paid the creditor for a significant period of time, and the creditor decides to write-off – or “charge-off” – the balance due to bad debt and closes the account. The creditor will often do this rather than take legal action against consumers. The report usually denotes charge-offs as Charge-Off or a 9 rating (e.g., R9)



Recognizing delinquent or adverse credit on a credit report is critical. Adverse credit can be reported many different ways, depending upon the individual credit reporting agency.

Navigating the Credit Report (continued)

6 ** Credit History **								
E	Creditor	Type	Date Rptd	Hi Cred	Status	Vendor		
C	Account #	Terms	Date Open	Balance	MR	30	60	90
O			Last Actv	Payment	Past Due	Amount		
A								
1	AMERICAN MORTGAGE	M	05/20	118000	Current			
24789		360 M 931	04/18	116850	0	0	0	0
			05/20	931				
	History: 11111111111111111111		From: 04/18					
	MORTGAGE							
2	HOME MORTGAGE CO	M	03/18	125000	Current			
37726895909		360 M 987	03/16	0	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	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	0
			05/20	368				
	History: 11111111111111111111		From: 02/17					
	AUTO							
8	HIGHER EDUCATION	INS	12/19	15751	Deferred			
1348AP9527		120 M 160	08/18	15751	0	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	0
			01/20	0				
	History: 1111		From: 03/19					
	CREDIT CARD							
	ACCOUNT CLOSED BY CONSUMER 12/19; ACCOUNT CLOSED AT CONSUMERS REQUEST							
8	ACME CREDIT	REV	05/20	1500	Current			
60190024554		32	11/18	121	0	0	0	0
			05/20	32				
	History: 1111111111111111		From: 11/18					
	CHARGE ACCOUNT							
3	GAS CARD	REV	05/20	2000	Current			
8711543982		0	06/18	0	1	0	0	0
			05/20	0				
	History: 11111111111211111111		From: 06/18					
	CREDIT CARD							
8	DISCOVER CARD	REV	05/20	5000	Current			
97531246890		50	06/18	1000	0	0	0	0
			05/20	50				
	History: 1111111111111111111111111111		From: 06/18					
	CREDIT CARD							

Types of Obligations and Payments

The type of obligation will determine documentation requirements and the payment amount to include in the borrowers' qualifying ratios.

Types of Obligations

- **Revolving credit:** Revolving credit, like a credit card, is typically unsecured. The borrower is obligated to pay back the amount of funds used against the credit line, along with additional fees that may include interest on the "borrowed" money
- **Open 30-day charge accounts:** This type of debt requires payment in full each month. In some cases, if the borrower can document sufficient assets, you can exclude the payment from the borrowers' total monthly obligations. Check investor guidelines for documentation requirements
- **Mortgages:** A mortgage is secured by a specific piece of real estate. The borrower repays the mortgage amount in periodic (usually monthly) installments, which typically include principal and interest
- **Installment loans:** This type of debt may or may not be secured. An auto loan is a common secured installment loan; a student loan is an example of an unsecured installment loan

Installment debt refers to any loan the borrower repays in periodic (usually monthly) installments, which include principal and interest. In some cases such as student loans, the payment may be deferred. Always check investor guidelines for payment qualification requirements.

- **Cosigned debt/contingent liability:** A debt from a cosigned debt/contingent liability generally does not have to be included in the borrowers' DTI ratio, as they are not the primary responsible payer. To exclude this payment from the DTI typically requires documentation that supports timely payments by someone other than the borrower. Check investor guidelines for documentation requirements

- **Debt paid by business:** When a self-employed borrower claims a monthly obligation on his or her personal credit report is being paid by the borrower's business, verify the obligation was actually paid out of company funds
- **Alimony/child support/separate maintenance:** Include court-ordered child or family support in the total monthly obligations. Include court-ordered alimony in the borrowers' the total monthly obligations or reduce the borrower's qualifying income by the amount of alimony. Check investor guidelines. Document this type of obligation with the court order identifying the payment amount and duration of alimony, child support and/or family support

Payments

When a revolving or open 30-day charge account does not include the monthly payment, calculate the payment at 5% of the stated balance or \$10, whichever is greater.

If your borrowers currently have a mortgage that's not included on the credit report, verify the mortgage payment history for the last 12 months, either by direct verification with their mortgage company or with 12 months of cancelled checks from the borrowers.



In general, exclude installment debts with 10 or fewer months remaining from the total liabilities if the payment does not materially affect the borrowers' ability to pay. Auto lease payments are the exception to the rule. Include them, regardless of the number of months remaining as, typically, the borrower will replace the lease with a new lease or loan on the buyout of the current lease.

Navigating the Credit Report (continued)

7 Inquiries					
Date	Ecoa	Member No	Comments	Vendor	
04/01/2020	1	00004343 00093256	PENTAGROUP F	TRU01 TRU01	
Additional Information					
No Additional Information Found					
CONSUMER REFERRAL INFORMATION					
EQUIFAX CREDIT INFORMATION SERVICES PO BOX 740241 ATLANTA, GA 30374-0241 800-685-1111				EFX06	
TRANS UNION CORPORATION 760 SPROUL ROAD PO BOX 390 SPRINGFIELD, PA 19064-0390 800-916-8800				TRU32	
EXPERIAN PO BOX 2002 ALLEN, TX 75013-2104 888-397-3742				XPNTD	
ECOA Key: 1=Borrower, 2=Joint, 3=Authorized User, 4=Joint, 5=Co-Maker, 7=Maker, 8=Co-Borrower, 9=Terminated, 0=Undesignated					
DISCLOSURE					
End Of Report					

7 Inquiries: This section of the credit report identifies the names of all credit grantors who obtained a copy of your borrowers' credit reports for any reason. Additionally, it lists anyone who accessed the reports over the past 2 years.

Credit inquiries are classified as either "hard" or "soft." Hard inquiries generally occur when a lender or creditor checks a consumer's credit report when making a lending decision. Soft inquiries typically occur when a person or company checks a consumer's credit report as part of a background check. Only hard inquiries affect a consumer's credit score.

When a credit report indicates recent inquiries took place, confirm whether borrowers have obtained any additional credit not reflected in the credit report or the Loan App. If the borrowers obtained additional credit, they must provide verification of that debt. Include the monthly payment from the unreported debt in the borrowers' total monthly obligations.

Checkpoint:

Do you have everything you need to evaluate credit?



Expedite underwriting, deliver better customer service and reduce job stress by completing these credit evaluation checkpoints:

Does the information on the credit report match what's on the Loan App?

- Check Social Security numbers to ensure the report you received is for the correct borrowers
- Compare employment information on both documents. If there's not a match, obtain an explanation from the borrowers clarifying the difference
- If any debts are missing from the credit report, obtain a separate verification from the borrowers for each missing debt. If debts appear on the credit report but not on the Loan App, obtain a written explanation as to why they didn't disclose the debts. Modify the Loan App to include these debts

Whose underwriting guideline are you satisfying – your company's or the investor's?

Evaluate the credit history for each borrower listed on the Loan App according to your company or investor credit guidelines.

What is the intent of the guideline?

Underwriting must determine the willingness of the borrowers to repay debt in a timely, responsible manner.

Does the information you've received satisfy the intent of the guideline? If not, what information can borrowers provide to satisfy it?

- Obtain additional information for further evaluation, including documents to support an explanation
- Obtain clarification to explain or compensate derogatory information

Do any new loans appear on the credit report?

Review the accounts listed on the credit report. Have the borrowers taken out any new loans recently? If so, you will need to determine whether it affects the borrowers' ability to qualify.

If a credit explanation is necessary, does it satisfactorily address the following questions?

- Is the explanation reasonable?
- Are facts and dates presented logically, and do they support the borrowers' story (e.g., divorce decree, satisfaction of judgment, paid receipts)?
- Was it a one-time incident – such as a medical or insurance problem? Or is there an indication that a pattern exists, and the problem will recur?

Capacity: Assessing the Ability to Repay

Capacity addresses the risk involved with the borrowers' ability to repay the mortgage based on the amount and stability of their income. As the underwriter, it's up to you to determine whether the borrowers will be able to make the proposed new mortgage payment and meet all of their other monthly obligations.

By the end of this section, you will be able to:

- Identify documents required to verify specific types of income
- Calculate monthly income



A verbal verification of employment (VVOE) requires you to:

- Independently obtain a phone number and, if possible, an address for the borrowers' employers
- Document the name and title of the person at the employer who confirmed employment
- Include the name and title of the person at the lender who performed the verification
- Include the date of the call and the source of the phone number

Evaluating Income

It seems almost too obvious to say that income is critical in repaying a mortgage. But the risk involved in the mortgage transaction relative to income goes beyond the borrowers merely having income. For example:

- Is their income enough to make the monthly mortgage payment and still meet monthly household obligations?
- Do the borrowers have a history of income stability?
- Is the income stable and likely to continue?
- Does their employment history reflect stability? If gaps are present, can the borrowers account for them?
- If a borrower has had more than 1 job, what are the reasons for job changes and lengths of time employed? Are the job skills transferable?
- Has the borrower changed jobs in order to increase pay or benefits incrementally, or to gain greater job security? (These circumstances are positive underwriting offsets)
- Are the borrowers employed full- or part-time? Seasonally?
- Do the borrowers have more than 1 job? Is the total amount of hours they work in a week sustainable? Is it necessary to qualify?
- What is the source of income? Salary? Commission? Self-employment? Pension?
- Are both borrowers' incomes being used to qualify for the loan?
- Do the borrowers indeed earn what is reported on the Loan App?

Employment History

Lenders typically require a minimum of 2 years of employment history. However, a shorter history may be acceptable if the Loan App demonstrates positive factors that reasonably offset it.

Documenting Income

To answer the questions above and others that individual situations may raise, we need to determine:

- The source of the borrowers' income to establish income stability, and
- The borrowers' income history to determine the likelihood that a similar level of income will continue

The source of income affects investor documentation requirements for verification. For example, a borrower who is currently employed may require a pay stub and a W-2, while another who receives Social Security income may require a copy of an awards letter.

In general, all income documentation must be auto-generated or fully completed by an authorized representative of the employer and identify:

- The employer or provider and borrower
- The date and time period covered
- Rate of compensation
- Gross earnings, including year-to-date (YTD)

The table on the next page lists many investors' typical documentation requirements. In lieu of the listed documentation, you may obtain employment and income verification directly from a third-party source (e.g., The Work Number®). Also, you may need to obtain a verbal VOE within 10 business days prior to closing date for employment income. Verbal verification dates vary for self-employed borrowers. Always check investor requirements.

The Work Number® is a registered trademark of TALX Corporation, a wholly owned subsidiary of Equifax Inc.

Source of Income	Documentation Requirements
Salaried/Hourly Income	<ul style="list-style-type: none"> • Most recent YTD pay stub dated no earlier than 30 days from date of the application • W-2s covering the prior years, OR • Written VOE, including YTD and prior years' earnings
Bonus Income/Overtime/Commission Income	<ul style="list-style-type: none"> • Usually a 2-year average for qualification with a 2-year history of earning it from the same employer supported by: <ul style="list-style-type: none"> - Most recent YTD pay stub dated no earlier than 30 days from date of the application - W-2s covering the prior years, OR - Written VOE, including YTD and prior years' earnings
Part-Time or Second Job	<ul style="list-style-type: none"> • Usually, a 2-year history demonstrating stable, recurring income. Income is averaged over 2 years. If history is less than 12 months, you may consider the income a positive underwriting offset <ul style="list-style-type: none"> - Most recent YTD pay stub dated no earlier than 30 days from date of the application - W-2s covering the prior years, OR - Written VOE, including YTD and prior years' earnings
Seasonal Income	<ul style="list-style-type: none"> • Seasonal workers may also receive unemployment compensation during their off-season months, usually verified on most recent 2 years of signed, personal tax returns <ul style="list-style-type: none"> - Most recent YTD pay stub dated no earlier than 30 days from date of the application - W-2s covering the prior years, OR - Written VOE, including YTD and prior years' earnings
Military Income	<ul style="list-style-type: none"> • Leave and Earnings Statement (LES) for most recent 30-day period with YTD earnings and W-2s for the prior 2 years, OR • Written VOE, including YTD and prior 2 years' earnings
Rental Income	Most recent 2 years of signed, personal tax returns (1 year may be allowed; check investor requirements). Note: If the property is not listed on Schedule E, provide a copy of the lease or use the appraisal to verify rental income.
Tip Income	<ul style="list-style-type: none"> • Most recent YTD pay stub dated no earlier than 30 days from date of the application • W-2s covering the prior years (or most recent 2 years of signed, personal tax returns), OR • Written VOE, including YTD and prior years' earnings
Self-Employment Income	<ul style="list-style-type: none"> • Most recent 2 years of signed, personal tax returns • Obtain most recent 2 years of business tax returns only if: <ul style="list-style-type: none"> - The borrower owns 25% or more of the business AND - The business structure is a corporation, an "S" corporation or a partnership • For Loan Apps dated more than 120 days after the end of the business tax year, current YTD financial statements • Self-employed income analysis worksheet

Source of Income	Documentation Requirements
Other Sources of Income (Retirement, Social Security, etc.)	<ul style="list-style-type: none"> • Document the source of income, as applicable, with: <ul style="list-style-type: none"> - Award letter - Pension statement - Most recent bank statement, OR - IRS 1099, etc. OR • Provide signed, personal tax returns for the most recent 2 years • Document continuance, as applicable
Alimony, Child Support or Separate Maintenance	<ul style="list-style-type: none"> • Select pages from the applicable agreement supporting 6 years of continuance from the closing date • Document proof of receipt for the most recent 3 months from 1 of the following: <ul style="list-style-type: none"> - Court payment record - Cancelled checks - Bank statements showing the deposits
Boarder Income	<ul style="list-style-type: none"> • Boarder income should be from a person who currently lives within a borrower's home – not in a rental unit – in exchange for regular, timely rent payments for the past 12 months. Verify boarder's residency history with a driver's license, bank statement or utility bill • Continuance of arrangement must be documented by a letter of intent from the boarder
Auto Allowance	Borrowers must have received the allowance for a minimum of 2 years. Note: Include auto payment in monthly obligations.
Employed by Property Seller, Real Estate Broker or a Closely Held Family Business	<ul style="list-style-type: none"> • Most recent YTD pay stub dated no earlier than 30 days from date of the application • W-2s covering the prior years and • Most recent 2 years of signed, personal tax returns



IRS Forms 4506/4506-T/4506-C
These forms permit lenders to obtain the borrower tax return information from the IRS.

- Form 4506 renders a full copy of the borrower's tax return, including documentation originally submitted (e.g., W-2s, 1099s, 1098s)
- Form 4506-T renders a transcript, which is a line-by-line print-out of only the tax return
- Form 4506-C renders a transcript electronically for third-party requestors

Once the borrowers sign Forms 4506/4506-T/4506-C, they are valid for 120 days.

Calculating Income from Employment

Borrower income can come from a number of different sources, with each source potentially reporting income differently. In order to determine how their new monthly mortgage payment will affect their ability to repay, you need to know how to calculate your borrowers' gross monthly income.

The information you derive from your calculations will go a long way to substantiate your decision whether to approve the loan. To calculate income, you will need to find out:

- Whether the borrowers are paid on an hourly basis or with a salary
- How often they're paid — weekly, bi-weekly, semi-monthly or monthly

Underwriters typically glean this information from borrowers' pay stubs and W-2 wage and tax statements gathered for the loan file.



Look at the list of different income types below. Which do you suppose have the greatest potential to fluctuate?

- Self-employed income
- Commission income
- Social Security income
- Bonus income
- Salaried income

If you selected self-employed, commission and bonus income, you're right. Because these types of income are not predictable, the general rule of thumb is to average them over a 2-year period to account for income highs and lows. This will provide a more accurate estimate of the borrowers' typical gross monthly earnings for you to assess their ability to make their mortgage payments over time.

Refer to the borrowers' pay stubs for the most current income. A pay stub may not always indicate how often the borrower is paid. Look for the number of hours worked. For full-time employees paid on a weekly basis, hours worked per week would typically be between 37 and 40. If the borrower is paid on a bi-weekly basis, the pay stub may indicate 75 to 80 hours.

Weekly paycheck

If the borrower is salaried...

$$\frac{\text{Base Pay} \times 52}{12} = \text{Gross Monthly Income}$$

If the borrower is paid hourly...

$$\frac{\text{Hours per Week} \times \text{Hourly Pay Rate} \times 52}{12} = \text{Gross Monthly Income}$$

Bi-weekly paycheck (paid every 2 weeks)

If the borrower is salaried...

$$\frac{\text{Base Pay} \times 26}{12} = \text{Gross Monthly Income}$$

If the borrower is paid hourly...

$$\frac{\text{Hours per 2 Weeks} \times \text{Hourly Wage} \times 26}{12} = \text{Gross Monthly Income}$$

Semi-monthly paycheck

A semi-monthly pay stub would generally reflect base pay for the pay period and doesn't state the number of hours worked. Semi-monthly pay periods are usually paid the 1st and 15th of the month. Regardless of the length of the calendar month, there are 2 pay periods.

- If the borrower is paid hourly or salaried...

$$\text{Base Pay} \times 2 = \text{Gross Monthly Income}$$

Monthly paycheck

Monthly pay stubs typically state base pay and don't reflect the number of hours worked. Clues that identify whether a borrower is paid on a monthly basis include:

- The date of the pay stub — the "pay period ending" date would be indicated as "from and to"
- The dollar amount reported under "current earnings," "earnings for period ending" or similar language, and the year-to-date income information
- If the borrower is paid hourly or salaried...

$$\text{Base Pay} = \text{Gross Monthly Income}$$



Applying the information on page 18, complete the Determining Gross Monthly Income exercise on pages 33-35 using the sample W-2s and pay stubs for reference.



Because income from self-employment is dependent on the success of the borrowers' business, it's more likely to fluctuate than traditional hourly-paid or salaried income.

The success of the business is subject to factors both within and outside of the borrowers' control. Expertise and experience, credit management and personnel decisions, as well as the economy, market conditions and competition all weigh on the borrowers' ability to sustain an adequate income.

As you evaluate this type of income it's important to gain historical perspective in order to be able to make a judgment regarding the borrowers' likelihood to repay the mortgage in the future.



For help with self-employed borrowers, ask your MGIC account representative, [mgic.com/contact](https://www.mgic.com/contact), about our self-employed borrower training program, or go to [mgic.com/training](https://www.mgic.com/training) to sign up for a webinar.

Checkpoint:

Do you have everything you need to evaluate income?



Expedite underwriting, deliver better customer service and reduce job stress by completing these income evaluation checkpoints:

Does employment and income information match what's on the Loan App?

- If not, obtain a written explanation from the borrowers to clarify any differences

Does the income documentation reflect stable income and employment?

- If not, you may need a written explanation from the borrowers to explain things such as a gap in employment or a significant fluctuation in income

Does the information satisfy the intent of the guideline? If not, what information can the borrowers provide to satisfy it?

- Obtain additional documents supporting the explanation for further evaluation
- Obtain clarification for complete understanding
- Obtain a written explanation for discrepancies or gaps in work history from the borrowers

Capital: Evaluating the Commitment to Repay

As an underwriter, you're called on to evaluate the borrowers' commitment to the property and to repaying their mortgage. The down payment is their personal investment in their new home; it speaks volumes about their commitment.

There is a direct correlation between the amount of the down payment that borrowers invest toward their purchase and the amount of risk associated with the loan. The greater their investment, the smaller the loan-to-value (LTV) ratio and risk involved. Conversely, the smaller the investment, the higher the LTV ratio and risk. (For more information about LTV ratios, see *The Fundamentals of the Mortgage Process Book 3: Processing the Loan*.)

But the down payment is only part of their capital profile. You'll also need to evaluate their cash management skills. Both factors play an important role in determining repayment risk.

At the end of this section, you will be able to:

- Identify required documents to verify specific types of assets
- Identify key information to evaluate assets

Examining the Borrowers' Assets

Mortgage industry experience shows the stronger the borrowers' capital profile is, the more likely they are to repay their mortgage. A capital profile includes the down payment in proportion to the sales price of the home and assets the borrowers can readily convert to cash.

These assets must support adequate funds to complete the transaction. In addition to the down payment, this includes closing costs, prepaid expenses and payoff/pay down of debt, etc. Reserves are the amount of borrower funds remaining after loan closing. They are measured by the number of months of the qualifying payment amount for the subject mortgage (based on PITIA – principal, interest, taxes, insurance and all other) that a borrower could pay using their assets.

- Examining the borrowers' capital profile provides insight into their past, present and future attitude toward and behavior regarding financial security. As you review documentation verifying borrowers' assets, ask yourself questions like:
- Have the borrowers' established a history of strong savings patterns?
- How much is their down payment relative to the sales price of the home?
- Do the borrowers have enough capital available to cover their down payment and closing costs?
- In the event their flow of income is interrupted, do they have adequate savings or other reserves to cover their mortgage payment and living expenses for an extended period of time?

Documenting Assets

The intent of verifying assets with documentation is to establish whether the borrowers:

- Have sufficient cash assets to close the loan
- Demonstrate cash management skills and the ability to save

To verify available funds and cash reserves, look at the most recent 2 months of statements to determine whether the borrowers' average savings and investment balance has been consistent over the 2-month period.

Check for recent large, unexplained deposit increases and new accounts opened with borrowed money. If there is no evidence of either, total the most recent balance on the statements to determine the funds available to close. If there are large deposits, you'll need to evaluate further. Investor requirements for evaluating large deposits vary based on the transaction type.

Refinance transactions

Typically, investors do not require documentation or an explanation for large deposits for refinance transactions. However, you are responsible for taking any borrowed funds into consideration, including any related liability.

Purchase transactions

If borrowers need to use funds from a large deposit to complete the purchase transaction (that is, for the down payment, closing costs or financial reserves), you must document that those funds are from an acceptable source. Examples of acceptable documentation include:

- The borrowers' written explanation
- Proof of ownership of an asset that was sold
- A copy of a wedding invitation to support receipt of gift funds

If you are unable to document a large deposit, do not include it in the borrowers' funds available toward closing. Confirm whether remaining funds are sufficient for the down payment, closing costs and reserves. Use the reduced asset amount for underwriting purposes.

Check investor guidelines for evaluating large deposits.

If borrowers will have strong cash reserves remaining after the loan has closed, consider it a positive, compensating factor to offset other high-risk factors that may be present; for example, a significant increase between present housing costs and proposed costs.

The type of asset determines the documentation investors require to verify available funds. For example, a borrower whose home purchase is contingent upon selling an existing home would need to provide a Closing Disclosure, while a borrower with savings would need to provide bank statements or authorization for verification of deposit.

Include the following information in the asset documentation:

Account statements

- The borrower, identified as the account holder
- Institution and account number (at least the last 4 digits)
- Time period covered by the statement
- Transaction history, including all deposits, withdrawals, purchases and sales transactions, as applicable
- Beginning and ending account balances

If the account statement is from the Internet, it must clearly identify the financial institution and the URL.

Written Verification of Deposit (VOD)

As you evaluate written VODs, look for these items:

- The lender directly requested the VOD from the depository institution
- The borrower is identified as the account holder
- Account number (at least the last 4 digits)
- Date opened
- Current balance
- 2-month average balance
- A representative of the depository institution signed and dated the document

The table on the next page lists typical documentation many investors require. Check your company or investor guidelines for specific documentation requirements.



Acceptable forms of statements include:

- Original, computer-generated forms the borrowers received in the mail
- Faxed copies from the provider, including the fax banner
- Documents downloaded and printed from the Internet, including the web address indicating the source of the information



Complete the Verifying Assets exercise on pages 36-37 using sample account statements for reference.

Type of Asset	Documentation Requirements
Depository Accounts (savings, CDs, retirement accounts, 401(k), IRA, etc.)	<p>VOD or bank or brokerage statements for the 2 most recent months for each account. If the borrowers are using retirement fund assets for the down payment or closing costs, provide the following:</p> <ul style="list-style-type: none"> • The most recent statement showing vested amount, and outstanding loans (if applicable) • The conditions under which funds may be withdrawn • Proof of liquidation (when required for closing). Note: If the value >20% needed to close, no proof of liquidation is required
Earnest Money Deposit	<p>To include the earnest money deposit as a borrower asset, document receipt of the deposit with a copy of the borrower's cancelled check and bank statements.</p> <p>If the earnest money check has not cleared yet, reduce verified funds by the earnest money deposit amount.</p>
Stocks, Bonds, Mutual Funds	<p>Private stock or stock in a closely held or family company is not an acceptable source.</p> <p>Stocks, bonds and mutual funds are acceptable sources of funds for the down payment, closing costs and reserves if their value can be verified with either of the following:</p> <ul style="list-style-type: none"> • 2 most recent months or quarterly statement(s) • Stock certificates/bonds with evidence of current value
Sale of Real Property	<p>Closing Disclosure or equivalent closing/settlement statement</p>
Sale of Personal Assets (cars, boats, collections, etc.)	<p>Provide all of the following when funds from the sale of a personal asset are being used:</p> <ul style="list-style-type: none"> • Proof of ownership of the asset being sold • Verification of the value of the asset being sold from an acceptable third-party source • Copy of the bill of sale and receipt of funds
Business Assets	<p>Provide all of the following when a self-employed borrower is using business assets:</p> <ul style="list-style-type: none"> • VOD or bank statement for most recent 2 months identifying the borrower as the account owner • Evidence of access and that withdrawal of funds will not be detrimental to business • Refer to investor guidelines

Type of Asset	Documentation Requirements
Gifts (must be from a relative of the borrower)	<p>Gifts must be documented with a gift letter signed by the donor stating:</p> <ul style="list-style-type: none"> • Donor's name and relationship to the borrowers • Donor's mailing address and phone number • Amount of the gift and the date the borrowers received it • Repayment is not expected or required <p>Note: If the gift funds are not reflected in the borrowers' account statement, provide proof of borrowers' receipt from the donor.</p>
Grants (from an acceptable source)	<p>The grant provider may not be an interested party to the transaction. Verify terms and conditions of the grant. Grants must be documented with an award letter stating:</p> <ul style="list-style-type: none"> • Borrowers' names • Provider's name, mailing address and phone number • Amount of the grant and the date the borrowers received it • Repayment is not expected or required <p>Note: If grant funds are not reflected in the borrowers' account statement, provide proof of borrowers' receipt from the provider.</p>
Borrowed Funds	<p>Borrowed funds must be secured by an asset that provides a return on equity (e.g., a 401(k), automobiles, real estate, etc.). Provide the following information:</p> <ul style="list-style-type: none"> • Documented ownership of the asset and that the asset secures the loan • Verified terms and monthly payment to be included in the DTI ratio <p>Note: For a loan secured by a financial asset, e.g., a 401(k), exclude the payment from DTI calculations.</p>
Seller/Interested-Party Contribution (Seller/IPC)	<p>Interested parties to the transaction may provide funds toward financing or sales concessions.</p> <p>An interested party to the transaction may include, but is not limited to, the seller, builder or developer, real estate agent, broker or an affiliate who may benefit from the sale of the property. Interested parties can pay contributions, typical fees or closing costs associated with the property transaction. The amount of the contribution is limited. Refer to investor guidelines.</p>

Checkpoint:

Do you have everything you need to evaluate assets?



Expedite underwriting, deliver better customer service and reduce job stress by completing these asset evaluation checkpoints:

Does the asset information match what's on the Loan App?

If not, obtain the borrowers' written explanation to clarify why the information is different. Minor differences in account balances may be normal (e.g., recent paycheck deposit).

Do the statements include the required information?

- Name of the institution and the account number (at least the last 4 digits)
- Borrowers named as the account holders
- Time period covered by the statement
- All deposits and withdrawals for depository accounts
- Purchase and sales transactions for financial portfolio accounts
- Ending account balance

Review the statements:

- Do the borrowers' names and address match the Loan App?
- Are there any large deposits that need explanation?
- Do you see any automatic loan payment withdrawals? If yes, are they included as liabilities on the Loan App?
- Is there any evidence of alterations, white-outs or deletions?
- If the statement is from the Internet, are the financial institution and URL identified?

Does the information satisfy intent of the guideline? If not, what information can the borrowers provide to satisfy it?

- Obtain additional information for further evaluation (e.g., verify additional funds to meet required reserves)
- Obtain clarification for complete understanding
- Obtain the borrowers' written explanation or documentation for discrepancies (e.g., a large deposit)

Are any of the funds toward the down payment or closing costs from an unacceptable source?

If so, obtain further verification of acceptable additional funds. Examples of unacceptable sources include:

- Proceeds from a personal or unsecured loan
- A gift that must be repaid
- Salary or bonus advances against future earnings

Collateral Risk: Confirming the Property's Value and Marketability

When borrowers finance a home purchase with a mortgage, the home serves as collateral and is pledged to the lender or the investor, whomever owns the mortgage. In the event the borrowers fail to repay their mortgage, the mortgage owner may sell the collateral, using the proceeds from the home's value to satisfy any remaining obligations. Quality collateral reduces risk to the lender.

It falls to the underwriter to substantiate whether the property is worth what the borrowers are paying for it. You decide whether the property meets your company or investor requirements regarding condition, marketability and value, based on the appraisal evaluation.

At the end of this section, you will be able to:

- Understand the purpose of the appraisal report in mortgage lending
- List appraisal alternatives to the Uniform Residential Appraisal Report (URAR)
- Identify key elements of a sales contract

Establish Value and Marketability

Information contained in the appraisal report and, if applicable, the sales contract will guide you toward an informed decision regarding whether the collateral's value would satisfy unpaid mortgage debt.

The Appraisal

Regardless of whether borrowers are purchasing a home or refinancing an existing mortgage, the transaction requires an appraisal. The appraisal is your key to substantiating the value of the property, taking into consideration the neighborhood, site, physical characteristics and condition of the property. Facts, figures, value estimates, property types, location, guidelines and forms all require your close attention. But it goes beyond that, because evaluating an appraisal, similar to underwriting a loan, is not an exact science. You need to use your experience, expertise and good judgment to evaluate and confirm whether the report supports property value and marketability.

Appraisers describe the property, noting both positive and negative factors and explain how these factors affect value and marketability.

As you review the appraisal report, watch for the following:

- Is the property thoroughly described, and has the appraiser noted and explained any unusual situations?
- Is the appraiser's estimate of value consistent with the description of the property?
- Is the value of the subject property supported by the sales price of similar properties?

The most commonly used appraisal is the Uniform Residential Appraisal Report (URAR), Freddie Mac Form 70/Fannie Mae Form 1004. Appraisers complete this report for single-family residences to provide a comprehensive evaluation of the interior and exterior condition of the subject property. In addition, it provides a detailed sales comparison approach, comparing recent sales of similar properties within close proximity to the subject property.

Fannie Mae and Freddie Mac established the Uniform Appraisal Dataset (UAD) to enhance the accuracy and quality of loan data. Appraisers must follow UAD requirements in order for the loan to be saleable to Fannie Mae or Freddie Mac.



To help guide your appraisal review, use our [sample Appraisal Report Checklist highlighting key information](#). See Appendix D on pages 38-39.

For more information on evaluating appraisals, contact your MGIC account representative, mgic.com/contact, regarding our appraisal training program or go to mgic.com/training to sign up for a webinar.

Appraisal Forms

Common appraisal forms you may come across include:

Report	Freddie Mac Form #	Fannie Mae Form #
Uniform Residential Appraisal Report	70	1004
Manufactured Home Appraisal Report	70B	1004C
Individual Condominium Unit Appraisal Report	465	1073
Individual Cooperative Interest Appraisal Report	N/A	2090
Small Residential Income Property Appraisal Report	72	1025
Appraisal Update and/or Completion Report	442	1004D
Two- to Four-Unit Residential Appraisal Field Review Report	1072	2000A
One-Unit Residential Appraisal Field Review Report	1032	2000

The following pages highlight key information to look for in the URAR.

The Appraisal Report

Uniform Residential Appraisal Report File No. 1 Hill Court

The purpose of this summary appraisal report is to provide the lender/client with an accurate, and adequately supported, opinion of the market value of the subject property.

Property Address **1 Hill Court** City **Anytown** State **US** Zip Code **12345**
 Borrower **Mr. and Mrs. Homeowner** Owner of Public Record **Mr. and Mrs. Seller** County **Scenic**
 Legal Description **Lot 7, River Bend PUD**
 Assessor's Parcel # **98-765-432-000** Tax Year **20XX** R.E. Taxes \$ **5,250**
 Neighborhood Name **River Bend** Map Reference **Anytown** Census Tract **137.40**

Occupant Owner Tenant Vacant Special Assessments \$ **0** PUD HOA \$ **200** per year per month
 Property Rights Appraised Fee Simple Leasehold Other (describe)
 Assignment Type Purchase Transaction Refinance Transaction Other (describe)
 Lender/Client **ABC Financial** Address **1512 Financial Street, Anytown, US 12345**
 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 data source(s) used, offering price(s), and date(s). **DOM 76; OLP \$435,000; originally offered for sale on 6/17/XX; it was listed under MLS #123456.**

I did 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.
Arms length sale; the contract between the buyer and seller was reviewed. There are no conditions or stipulations that are not typical of the market or would impact the negotiated price.

Contract Price \$ **430,000** Date of Contract **08/19/20XX** Is the property seller the owner of public record? Yes No Data Source(s) **County Recorder**
 Is there any financial assistance (loan charges, sale concessions, gift or downpayment 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. **\$0; No financial assistance provided.**

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 checked="" type="checkbox"/> Suburban <input type="checkbox"/> Rural	Property Values <input type="checkbox"/> Increasing <input checked="" type="checkbox"/> Stable <input type="checkbox"/> Declining	PRICE	AGE	One-Unit	75 %		
Built-Up <input type="checkbox"/> Over 75% <input checked="" type="checkbox"/> 25-75% <input type="checkbox"/> Under 25%	Demand/Supply <input type="checkbox"/> Shortage <input checked="" type="checkbox"/> In Balance <input type="checkbox"/> Over Supply	\$(000)	(yrs)	2-4 Unit	3 %		
Growth <input type="checkbox"/> Rapid <input checked="" type="checkbox"/> Stable <input type="checkbox"/> Slow	Marketing Time <input type="checkbox"/> Under 3 mths <input checked="" type="checkbox"/> 3-6 mths <input type="checkbox"/> Over 6 mths	250 Low	0	Multi-Family	0 %		
Neighborhood Boundaries Highland Rd. on North; Morgan Rd. on South; Washington River on East; Sheridan Rd. on West.		600 High	40	Commercial	2 %		
		450 Pred.	25	Other Vacant	20 %		

Neighborhood Description **The subject property is in a residential neighborhood of homes similar in construction, condition, design and amenities. The area is desirable due to its larger lots. The neighborhood has good access to all necessary supporting facilities. No adverse factors were noted that would affect marketability.**
 Market Conditions (including support for the above conclusions) **Market data for the area indicates that property values are stable. Supply and demand appear to be in balance. Interest rates remain favorable. Typical seller concessions have no effect on property values.**

Dimensions **See Plat Map** Area **1.25 ac** Shape **Irregular** View **B; Woods;**
 Specific Zoning Classification **R-3** Zoning Description **Single unit/Residential**
 Zoning Compliance Legal Legal Nonconforming (Grandfathered Use) No Zoning Illegal (describe)
 Is the highest and best use of the subject property as improved (or as proposed per plans and specifications) the present use? Yes No If No, describe. **Given present zoning and demand, highest and best use is limited to single unit and the present use is the most practical use.**

Utilities **Public Other (describe)** **Public Other (describe)** **Off-site Improvements—Type Public Private**
 Electricity Water Street **Paved**
 Gas Sanitary Sewer Alley **None**
 FEMA Special Flood Hazard Area Yes No FEMA Flood Zone **X** FEMA Map # **372C246E** FEMA Map Date **04/18/20XX**
 Are the utilities and off-site improvements typical for the market area? Yes No If No, describe.
 Are there any adverse site conditions or external factors (easements, encroachments, environmental conditions, land uses, etc.)? Yes No If Yes, describe. **The subject site slopes gently to the rear, which is heavily wooded. Normal utilities and easements. No survey was provided, but there appears to be no adverse encroachments or conditions.**

GENERAL DESCRIPTION	FOUNDATION	EXTERIOR DESCRIPTION	materials/condition	INTERIOR	materials/condition
Units <input checked="" type="checkbox"/> One <input type="checkbox"/> One with Accessory Unit	<input type="checkbox"/> Concrete Slab <input type="checkbox"/> Crawl Space	Foundation Walls	Conc Bl/Avg	Floors	Cpt&HW/Avg
# of Stories 2	<input checked="" type="checkbox"/> Full Basement <input type="checkbox"/> Partial Basement	Exterior Walls	Wood/Avg	Walls	Drywall/Avg
Type <input checked="" type="checkbox"/> Det. <input type="checkbox"/> Att. <input type="checkbox"/> S-Det./End Unit	Basement Area 1347 sq. ft.	Roof Surface	Cmp shgl/Avg	Trim/Finish	Wood/Avg
<input checked="" type="checkbox"/> Existing <input type="checkbox"/> Proposed <input type="checkbox"/> Under Const.	Basement Finish 0 %	Gutters & Downspouts	Alum/Avg	Bath Floor	Tile/Avg
Design (Style) Colonial	<input type="checkbox"/> Outside Entry/Exit <input checked="" type="checkbox"/> Sump Pump	Window Type	Alum DH/Avg	Bath Wainscot	Tile/Avg
Year Built 1986	Evidence of <input type="checkbox"/> Infestation	Storm Sash/Insulated	Combo/Avg	Car Storage	<input type="checkbox"/> None
Effective Age (Yrs) 15	<input type="checkbox"/> Dampness <input type="checkbox"/> Settlement	Screens	Yes/Avg	<input checked="" type="checkbox"/> Driveway # of Cars 2	
Attic <input type="checkbox"/> None <input type="checkbox"/> Heating <input checked="" type="checkbox"/> FWA <input type="checkbox"/> HWBB <input type="checkbox"/> Radiant	Amenities	<input type="checkbox"/> WoodStove(s) # 0		Driveway Surface	Concrete
<input checked="" type="checkbox"/> Drop Stair <input type="checkbox"/> Stairs <input type="checkbox"/> Other	Fuel Gas <input checked="" type="checkbox"/> Fireplace(s) # 1	<input type="checkbox"/> Fence None		<input checked="" type="checkbox"/> Garage # of Cars 2	
<input type="checkbox"/> Floor <input checked="" type="checkbox"/> Scuttle	Cooling <input checked="" type="checkbox"/> Central Air Conditioning	<input checked="" type="checkbox"/> Patio/Deck Deck		<input type="checkbox"/> Carport # of Cars 0	
<input type="checkbox"/> Finished <input type="checkbox"/> Heated	<input type="checkbox"/> Individual <input type="checkbox"/> Other	<input type="checkbox"/> Pool None		<input checked="" type="checkbox"/> Other Shed <input checked="" type="checkbox"/> Att. <input type="checkbox"/> Det. <input type="checkbox"/> Built-in	
Appliances <input checked="" type="checkbox"/> Refrigerator <input checked="" type="checkbox"/> Range/Oven <input checked="" type="checkbox"/> Dishwasher <input checked="" type="checkbox"/> Disposal <input type="checkbox"/> Microwave <input type="checkbox"/> Washer/Dryer <input type="checkbox"/> Other (describe)					
Finished area above grade contains: 8 Rooms	4 Bedrooms	2.1 Bath(s)	2,571 Square Feet of Gross Living Area Above Grade		

Additional features (special energy efficient items, etc.). **New kitchen; two tone cabinets, solid surface counter tops and SS appliances; beamed ceilings, built-in book shelves and cabinets in LR; tray ceiling in MBR; large tub, shower and vanity area in master bath; rear deck.**
 Describe the condition of the property (including needed repairs, deterioration, renovations, remodeling, etc.). **C2; Kitchen-remodeled-one to five years ago; Bathrooms-remodeled-one to five years ago; Overall condition is acceptable and consistent with that typically found in a well-maintained, remodeled home. The subject improvements appear to be properly constructed of materials and finish that are acceptable in this market and price range. No "needed repairs" of significance were noted, although it is possible that some may exist, especially if they were not readily visible to the appraiser.**
 Are there any physical deficiencies or adverse conditions that affect the livability, soundness, or structural integrity of the property? Yes No If Yes, describe. **While no physical deficiencies or adverse conditions that affect livability, soundness or structural integrity were noted, such items are generally beyond the expertise of the appraiser. Issues of soundness and structural integrity are often related to areas that are hidden from the appraiser's view. See limiting condition #5 and comments on page three related to appraiser's definition of "complete visual inspection."**
 Does the property generally conform to the neighborhood (functional utility, style, condition, use, construction, etc.)? Yes No If No, describe. **Functional utility is acceptable, with adequately sized rooms, ample closet space and an efficient layout.**

Freddie Mac Form 70 March 2005 UAD Version 9/2011 Produced using ACI software, 800.234.8727 www.aciweb.com Fannie Mae Form 1004 March 2005 104_05UAD 12/06/05 Page 1 of 6

Strong appraisal evaluation skills will serve you well as you underwrite loan files. Each section of the appraisal report contains information that can affect collateral risk and, therefore, your underwriting decision.

On the following pages, we've laid out a sample URAR and highlighted information you will need to examine in each of its sections. Use our Appraisal Report Checklist (Appendix D on pages 38-39) as a guide.

- Subject:** Provides the property address, legal description, buyer/seller and listing history
- Contract:** Addresses the appraiser's view of the sales contract, noting anything in the sale not typical of the market or that would affect the negotiated price
- Neighborhood:** Includes property location, demand and supply of housing, comments on the neighborhood and market conditions
- Site:** Contains information regarding zoning, off-site improvements, utilities, drainage and flood hazard
- Improvements:** States the style of home and type of foundation and includes an exterior and interior description

Uniform Residential Appraisal Report

File No. 1 Hill Court

There are 27 comparable properties currently offered for sale in the subject neighborhood ranging in price from \$ 250,000 to \$ 600,000
 There are 20 comparable sales in the subject neighborhood within the past twelve months ranging in sale price from \$ 250,000 to \$ 500,000

6

FEATURE	SUBJECT	COMPARABLE SALE NO. 1		COMPARABLE SALE NO. 2		COMPARABLE SALE NO. 3	
1 Hill Court	680 Independence Lane	243 Apple Lane		814 Lafayette Place		Anytown, US 12345	
Address	Anytown, US 12345	Anytown, US 12345		Anytown, US 12345		Anytown, US 12345	
Proximity to Subject	0.25 miles W	1.25 miles SE		1.25 miles SE			
Sale Price	\$ 430,000	\$ 425,000		\$ 415,000		\$ 435,000	
Sale Price/Gross Liv. Area	\$ 167.25 sq. ft.	\$ 162.83 sq. ft.		\$ 161.74 sq. ft.		\$ 162.62 sq. ft.	
Data Source(s)	MLS #723369;DOM 80	MLS #724740;DOM 92		MLS #755130;DOM 102			
Verification Source(s)	Assessor Records	Assessor Records		Assessor Records			
VALUE ADJUSTMENTS	DESCRIPTION	DESCRIPTION	+() \$ Adjustment	DESCRIPTION	+() \$ Adjustment	DESCRIPTION	+() \$ Adjustment
Sale or Financing	ArmLth	ArmLth	0	ArmLth	0	ArmLth	
Concessions	Conv:0	FHA:0	0	Conv:4000	-4,000	Conv:4000	-4,000
Date of Sale/Time	s06/XX;c04/XX	s07/XX;c05/XX	0	s08/XX;c06/XX	0	s08/XX;c06/XX	0
Location	N;Res;	N;Res;		N;Res;		N;Res;	
Leasehold/Fee Simple	Fee Simple	Fee Simple		Fee Simple		Fee Simple	
Site	1.25 ac	34848 sf	5,000	1.1 ac	0	40075 sf	0
View	B;Woods;	N;Res;	5,000	N;Res;	5,000	B;Woods;	
Design (Style)	DT2:Colonial	DT2:Colonial		DT2:Colonial		DT2:Colonial	
Quality of Construction	Q3	Q3		Q3		Q3	
Actual Age	32	31	0	33	0	31	0
Condition	C2	C2		C3	6,000	C2	
Above Grade	Total Bdrms Baths	Total Bdrms Baths		Total Bdrms Baths		Total Bdrms Baths	
Room Count	8 4 2.1	8 3 2.1	0	8 4 2.1	0	8 4 3.0	-2,500
Gross Living Area	2,571 sq. ft.	2,610 sq. ft.	0	2,466 sq. ft.	5,300	2,675 sq. ft.	-5,200
Basement & Finished Rooms Below Grade	1347sf0sfin	1357sf0sfin	0	1282sf0sfin	0	1391sf0sfin	0
Functional Utility	Acceptable	Acceptable		Acceptable		Acceptable	
Heating/Cooling	FWA C/Air	FWA C/Air		FWA C/Air		FWA C/Air	
Energy Efficient Items	Typical	Typical		Typical		Windows	-3,000
Garage/Carport	2ga2dw	2ga2dw		2ga2dw		2ga2dw	
Porch/Patio/Deck	Deck	Deck		Patio	1,000	Deck	
	1 F/P	1 F/P		1 F/P		1 F/P	
	Shed	None	1,000	None	1,000	None	1,000
Net Adjustment (Total)		[X] + [] - \$ 11,000		[X] + [] - \$ 18,300		[] + [X] - \$ 13,700	
Adjusted Sale Price of Comparables		Net Adj. 2.6% Gross Adj. 2.6% \$ 436,000		Net Adj. 4.4% Gross Adj. 4.4% \$ 433,300		Net Adj. -3.1% Gross Adj. 3.6% \$ 421,300	

SALES COMPARISON APPROACH

I [X] did [] not research the sale or transfer history of the subject property and comparable sales. If not, explain _____

My research [X] did [] not reveal any prior sales or transfers of the subject property for the three years prior to the effective date of this appraisal.

Data source(s) MLS and County records

My research [X] did [] not reveal any prior sales or transfers of the comparable sales for the year prior to the date of sale of the comparable sale.

Data source(s) MLS and County records

Report the results of the research and analysis of the prior sale or transfer history of the subject property and comparable sales (report additional prior sales on page 3).

ITEM	SUBJECT	COMPARABLE SALE NO. 1	COMPARABLE SALE NO. 2	COMPARABLE SALE NO. 3
Date of Prior Sale/Transfer	06/01/20XX	10/01/20XX		
Price of Prior Sale/Transfer	\$387,000	\$403,500		
Data Source(s)	MLS, Tax Records	MLS, Tax Records	MLS, Tax Records	MLS, Tax Records
Effective Date of Data Source(s)	09/01/20XX	09/01/20XX	09/01/20XX	09/01/20XX

Analysis of prior sale or transfer history of the subject property and comparable sales: The subject property last sold 3 years ago for \$387,000. Per the listing Realtor the transaction was arms length after the property was on the market for 45 days. Sale 1 sold in the prior 12 months and sales 2 and 3 have not transferred in the prior 1 year.

Summary of Sales Comparison Approach: All of the comparables sales are located within the subject's immediate market area. Adjustments were necessary for site, view, condition, GLA, bathroom, energy efficient items and exterior features. Comparable 2 has inferior updates to the subject. Sales 1 & 2 received view adjustments due to subject's superior wooded view. Sale 1 is in closest proximity, however on a smaller lot size. Adjustments for differences in GLA of greater than 50 feet were made. Sale 3 has superior bath amenity and new energy efficient windows. Sales received adjustments for the subject's garden shed and/or superior deck. The market does not recognize a functional difference between a 3 or 4 bedroom home. Sale 1 provided the least amount of adjustments and is most similar in GLA. Sale 2 is most similar in lot size. Sale 3 is the most recent sale and is similar in lot size and GLA.

Indicated Value by Sales Comparison Approach \$ 430,000

Indicated Value by: Sales Comparison Approach \$430,000 Cost Approach (if developed) \$ 430,000 Income Approach (if developed) \$ 0
 The high quality of the data used in the sales comparison approach demonstrates its viability as the best value indicator, with the cost approach in a strong supporting role. As indicated on page three, the income approach to value was not developed.

7

This appraisal is made [X] "as is," [] subject to completion per plans and specifications on the basis of a hypothetical condition that the improvements have been completed, [] subject to the following repairs or alterations on the basis of a hypothetical condition that the repairs or alterations have been completed, or [] subject to the following required inspection based on the extraordinary assumption that the condition or deficiency does not require alteration or repair: _____

Based on a complete visual inspection of the interior and exterior areas of the subject property, defined scope of work, statement of assumptions and limiting conditions, and appraiser's certification, my (our) opinion of the market value, as defined, of the real property that is the subject of this report is \$ 430,000 as of 09/01/20XX, which is the date of inspection and the effective date of this appraisal.

- 6 Sales Comparison Approach: Provides a minimum of 3 comparable, closed sales, required to determine market value
- 7 Reconciliation: Provides certification of the appraisal and the final value

The Appraisal Report (continued)

Uniform Residential Appraisal Report File No. 1 Hill Court

8 Clarification of Intended Use and Intended User:
 The Intended User of this appraisal report is the Lender/Client. The Intended Use is to evaluate the property that is the subject of this appraisal for a mortgage finance transaction, subject to the stated Scope of Work, purpose of the appraisal, reporting requirements of this appraisal report form, and Definition of Market Value. No additional Intended Users are identified by the appraiser.

Clarification of the term "complete visual inspection":
 Certification #2 on page 5 of this report states that the appraiser has performed a "complete visual inspection" of the property. It should be understood that the "complete visual inspection" was performed within the context of the intended use and intended user identified on page 4 and clarified above. That is, the appraiser's inspection of the property is for valuation purposes only and is strictly for the purpose of assisting the lender/client (and only the lender/client) in evaluating the property for a mortgage finance transaction.

The appraiser's inspection of the property was limited to what was readily observable without moving furniture, floor coverings or personal property. Unless otherwise stated, the appraiser did not view attics, crawlspaces or any other area that would involve the use of ladders or special equipment. The appraiser's viewing of the property was limited to surface areas only and can often be compromised by landscaping, placement of personal property or even weather conditions. Most importantly, the appraiser's inspection of the property is far different from and much less intensive than the type of inspections performed to discover property defects. The appraiser is not a home inspector, building contractor, pest control specialist or structural engineer. An appraisal is not a substitute for a home inspection or an inspection by a qualified expert in determining issues such as, but not limited to, foundation settlement or stability, moisture problems, wood destroying (or other) insects, rodents or pests, radon gas or lead-based paint. The client is invited and encouraged to employ the services of appropriate experts to address any area of concern.

9 Use of Cost Approach for Insurance Purposes:
 Replacement cost figures used in developing the cost approach are for valuation purposes only. No one, client or third party, should rely on these figures for insurance purposes. The definition of "market value" on page four of this form is not consistent with definitions of "insurable value." Actual reconstruction costs can easily exceed the replacement cost figures used in this appraisal.

COST APPROACH TO VALUE (not required by Fannie Mae)

Provide adequate information for the lender/client to replicate the below cost figures and calculations.
 Support for the opinion of site value (summary of comparable land sales or other methods for estimating site value) Site value based upon analysis of 7 sales of sewerer sites that transacted within the last 3 years. Sales prices ranged from \$160,000 to \$225,000. Adjustments applied for time, location, terrain, curb appeal. Lot sizes ranged from .75 acres to 2.5 acres. Indicative sales include: 2 Ranch Rd. for \$169,000, 8 Sunnydale Dr. for \$189,000, 20 Sunnydale Dr. for \$220,000 (private access road), 40 Liebau Rd., \$198,000.

ESTIMATED <input type="checkbox"/> REPRODUCTION OR <input checked="" type="checkbox"/> REPLACEMENT COST NEW	OPINION OF SITE VALUE	= \$	200,000
Source of cost data Marshall & Swift	Dwelling 2,571 Sq. Ft. @ \$ 81	= \$	208,251
Quality rating from cost service Average Effective date of cost data 09/01/20XX	Basement 1,347 Sq. Ft. @ \$ 31	= \$	41,757
Comments on Cost Approach (gross living area calculations, depreciation, etc.)	Wood Deck 700 Sq. Ft. @ \$ 11	= \$	7,700
Marshall & Swift cost services are combined with local contractor's cost estimates and appraisal experience to arrive at the replacement cost figures. Depreciation estimates are reflected based on the straight line method. Land to value ratio is typical for homes in this market area, at this price range. Using cost information for insurance purposes is not an intended use of this appraisal.	Garage/Carport 641 Sq. Ft. @ \$ 23	= \$	14,743
	Total Estimate of Cost-New	= \$	272,451
	Less 75 Physical Functional External	= \$ (54,490)
	Depreciation	= \$	217,961
	"As-is" Value of Site Improvements	= \$	12,000
Estimated Remaining Economic Life (HUD and VA only) 60 Years	INDICATED VALUE BY COST APPROACH	= \$	430,000

INCOME APPROACH TO VALUE (not required by Fannie Mae)

Estimated Monthly Market Rent \$ Gross Rent Multiplier = \$ Indicated Value by Income Approach

Summary of Income Approach (including support for market rent and GRM) **Homes in this price range and neighborhood are typically purchased for use and not income. Thus, the income approach lacks rationale and was not developed.**

PROJECT INFORMATION FOR PUDs (if applicable)

Is the developer/builder in control of the Homeowners' Association (HOA)? Yes No Unit type(s) Detached Attached

Provide the following information for PUDs ONLY if the developer/builder is in control of the HOA and the subject property is an attached dwelling unit.

Legal name of project _____

Total number of phases _____ Total number of units _____ Total number of units sold _____

Total number of units rented _____ Total number of units for sale _____ Data source(s) _____

Was the project created by the conversion of an existing building(s) into a PUD? Yes No If Yes, date of conversion. _____

Does the project contain any multi-dwelling units? Yes No Data source(s) _____

Are the units, common elements, and recreation facilities complete? Yes No If No, describe the status of completion. _____

Are the common elements leased to or by the Homeowners' Association? Yes No If Yes, describe the rental terms and options. _____

Describe common elements and recreational facilities. _____

Freddie Mac Form 70 March 2005 UAD Version 9/2011 Produced using ACI software, 600.234.8727 www.aciweb.com Fannie Mae Form 1004 March 2005 1004_05UAD 12/02/05 Page 3 of 6

- 8 Additional Comments:** Contains appraiser comments regarding any cautionary items that may affect the value or marketability of the subject property
- 9 Cost Approach:** Shows the estimated cost of the site, the reproduction cost and depreciation the appraiser used to determine final value if the home were to be newly constructed
- 10 Income Approach:** Determines the value of the property using an estimated monthly rent
- 11 PUD Information:** Provides project information when the subject is part of a planned unit development

Uniform Residential Appraisal Report File No. 1 Hill Court

22. I am aware that any disclosure or distribution of this appraisal report by me or the lender/client may be subject to certain laws and regulations. Further, I am also subject to the provisions of the Uniform Standards of Professional Appraisal Practice that pertain to disclosure or distribution by me.

23. The borrower, another lender at the request of the borrower, the mortgagee or its successors and assigns, mortgage insurers, government sponsored enterprises, and other secondary market participants may rely on this appraisal report as part of any mortgage finance transaction that involves any one or more of these parties.

24. If this appraisal report was transmitted as an "electronic record" containing my "electronic signature," as those terms are defined in applicable federal and/or state laws (excluding audio and video recordings), or a facsimile transmission of this appraisal report containing a copy or representation of my signature, the appraisal report shall be as effective, enforceable and valid as if a paper version of this appraisal report were delivered containing my original hand written signature.

25. Any intentional or negligent misrepresentation(s) contained in this appraisal report may result in civil liability and/or criminal penalties including, but not limited to, fine or imprisonment or both under the provisions of Title 18, United States Code, Section 1001, et seq., or similar state laws.

APRAISER'S CERTIFICATION:

- I have, appraisal report
- I improve the soundness,
- I perform that were at time this app
- I develop approach to
- I research the subject
- I research date of sale
- I select that has been
- I have r property and
- I verified the sale or r
- I have k
- I am aw services, tax
- I obtain reliable sou
- I have t property, noted in th

SCOPE OF WORK: This report form unit in a planned in a condominium. This appraisal r assumptions ar definition of ma to include any d deletions to the to this apprais appraisal organ

INTENDED USE: This appraisal r reporting requi and limiting co interior and ext least the street opinions, and c

INTENDED USE: This appraisal r under all condit not affected by title from seller or well advised exposure in the comparable the financing or sal

*Adjustments to necessary for t identifiable sinc made to the co involved in the financing or co concessions ba

STATEMENT OF following assur

- The apprai to it, except for appraiser assu
- The apprai sketch is includ
- The apprai other data sour Flood Hazard # determination.
- The apprai unless specific
- The apprai hazardous was during the rese knowledge of a needed repairs would make the warranties, exp testing that mig environmental f
- The apprai completion, rep performed in a

APRAISER'S CERTIFICATION: The Supervisory Appraiser certifies and agrees that:

- I directly supervised the appraiser for this appraisal assignment, have read the appraisal report, and agree with the appraiser's analysis, opinions, statements, conclusions, and the appraiser's certification.
- I accept full responsibility for the contents of this appraisal report including, but not limited to, the appraiser's analysis, opinions, statements, conclusions, and the appraiser's certification.
- The appraiser identified in this appraisal report is either a sub-contractor or an employee of the supervisory appraiser (or the appraisal firm), is qualified to perform this appraisal, and is acceptable to perform this appraisal under the applicable state law.
- This appraisal report complies with the Uniform Standards of Professional Appraisal Practice that were adopted and promulgated by the Appraisal Standards Board of The Appraisal Foundation and that were in place at the time this appraisal report was prepared.
- If this appraisal report was transmitted as an "electronic record" containing my "electronic signature," as those terms are defined in applicable federal and/or state laws (excluding audio and video recordings), or a facsimile transmission of this appraisal report containing a copy or representation of my signature, the appraisal report shall be as effective, enforceable and valid as if a paper version of this appraisal report were delivered containing my original hand written signature.

APRAISER

Signature LT Tucker
 Name L.T. Tucker
 Company Name Accurate Appraisal
 Company Address 567 Main St.
Anytown, US 12345
 Telephone Number 123-456-7890
 Email Address LTucker@AccurateAppraisal.com
 Date of Signature and Report 09/03/20XX
 Effective Date of Appraisal 09/01/20XX
 State Certification # 123456
 or State License # 123456
 or Other (describe) _____ State # _____
 State US
 Expiration Date of Certification or License 12/31/20XX

SUPERVISORY APPRAISER (ONLY IF REQUIRED)

Signature _____
 Name _____
 Company Name _____
 Company Address _____
 Telephone Number _____
 Email Address _____
 Date of Signature _____
 State Certification # _____
 or State License # _____
 State _____
 Expiration Date of Certification or License _____

ADDRESS OF PROPERTY APPRAISED
1 Hill Court
Anytown, US 12345

APPRAISED VALUE OF SUBJECT PROPERTY \$ 430,000

LENDER/CLIENT
 Name John Avenue
 Company Name ABC Financial
 Company Address 1512 Financial Street
Anytown, US 12345
 Email Address JAvenue@ABCFinancial.com

SUBJECT PROPERTY
 Did not inspect subject property
 Did inspect exterior of subject property from street
 Date of Inspection _____
 Did inspect interior and exterior of subject property
 Date of Inspection _____

COMPARABLE SALES
 Did not inspect exterior of comparable sales from street
 Did inspect exterior of comparable sales from street
 Date of Inspection _____

Freddie Mac Form 70 March 2006 UAD Version 9/2011 Product using A2 software, 800.224.8177 www.acweb.com Page 5 of 6

Freddie Mac Form 1004 March 2006 UAD Version 9/2011 Product using A2 software, 800.224.8177 www.acweb.com Page 5 of 6

Freddie Mac Form 70 March 2006 UAD Version 9/2011 Product using A2 software, 800.224.8177 www.acweb.com Page 4 of 6

Freddie Mac Form 1004 March 2006 UAD Version 9/2011 Product using A2 software, 800.224.8177 www.acweb.com Page 5 of 6

12 Terms and conditions:
 Defines the purpose, scope, intent and conditions of the appraisal document

13 Appraiser's Certification:
 States the established criteria under which the appraiser developed the report

14 Appraiser: Validation by the appraiser that the certification terms have been met, including the appraiser's signature, contact information and license or certification information



For a deeper understanding of evaluating appraisals, ask your MGIC account representative, mgic.com/ contact, about our appraisal training class, or go to mgic.com/training to sign up for a webinar.

The Sales Contract

Investors require sales contracts only if the mortgage is for a home being purchased. Sales contracts around the country vary, but they generally satisfy the same purpose – to create a legally binding agreement that identifies the actions, conditions and warranties between the buyers (your borrowers) and the seller. That is to say, the purpose of the sales contract is to detail the conditions under which the sale of the property will take place.

To best serve your borrowers, you must be familiar with the key information contained in the contract to successfully process and close the loan. For example, the closing date determines how much time you have to process the loan, while the purchase price and requested loan amount may influence the loan program the borrowers use.

See a sample sales contract highlighting key information in Appendix E on pages 40-41.

Checkpoint:

Do you have everything you need to evaluate collateral?



Expedite underwriting, deliver better customer service and reduce job stress by completing these collateral evaluation checkpoints:

Does the information on the sales contract match the information on the Loan App?

Make sure key information like names, address and dollar amount is consistent with the information reported on the Loan App. This information will eventually appear on the final loan documents. Match inconsistencies against other documents in the file to determine which information is correct; if you're unsure, contact the borrowers to clarify.

Is the contract signed by all involved parties (or certified by the escrow company, if applicable)?

Without signatures or certification by all involved parties – buyers, sellers and real estate agents – the sales contract is not a legal, binding document.

Does the contract include all referenced addenda?

Review the sales contract to make sure all referenced addenda are included; they may contain critical information you need to successfully process the loan (e.g., a change in the closing date).

Does the sales contract list any contingencies?

Review the contract for any contingencies; they may affect the loan process or loan approval conditions. **Note:** If the sale of a current home is listed as a contingency, make certain the information is included on the Loan App.

Does the sales contract reference the inclusion of chattel property?

Review the sales contract or escrow instructions for any chattel property (e.g., furniture, a lawn mower) that may have been included in the sales price. Deduct the value of the chattel property from the sales price.

Are there any sales concessions noted in the contract?

A sales concession is typically an item included by the seller as a condition for closing the loan transaction; for example, decorating allowances, cash rebates, etc. These items may affect the value of the property.

Are there any seller contributions noted in the contract?

Seller contributions typically include items paid by the sellers that are otherwise the buyers' obligations, such as financing costs. Financing concessions are usually interest rate buydowns or a payment supplement provided by the seller. The amount that sellers may contribute to a sales transaction is limited to a percentage of the sales price or appraised value, whichever is less. However, seller contributions cannot exceed the actual costs to close the loan.

The table below lists typical seller contribution limits.

Occupancy Type and LTV	Typical Seller Contribution Limits
Principal Residence	
> 90.01%	3%
≤ 90%	6%

Does the information satisfy the intent of the guideline? If not, what information can the borrowers provide to satisfy it?

- Obtain clarification for complete understanding; for example, who will be paying for any repairs noted on the contract?
- Obtain the borrowers' explanation as needed

The 4 Cs: Your Guide to Quality

As mortgage professionals, our shared goal is to qualify as many borrowers as possible without compromising the assets of the lender or the investor and, above all, without compromising the borrowers' ability to successfully maintain homeownership.

By carefully reviewing the borrowers' Credit, Capacity, Capital and Collateral, we can piece together a comprehensive picture of risk. The presence of a high-risk factor in any one of these categories doesn't necessarily threaten successful homeownership. But when a number of interrelated high-risk characteristics are present without sufficient offsets or compensating factors, their cumulative effect increases the likelihood of default.

The perspective you gain from evaluating The 4 Cs gives you insight to loan quality. Underwriting for quality is an acquired art – not a cut-and-dried science. While general principles apply, every loan file represents a unique situation. The more you practice this fine art, the more comfortable, confident and capable you'll become with *The Fundamentals of the Mortgage Process*.

Appendix A

Exercise 1: Navigating the Credit Report

Answer the questions below regarding the borrowers' credit report. Refer to the credit report on pages 6-14. See Appendix F on page 42 for the answers.

1. Identify the 3 repository sources:

- a. _____
- b. _____
- c. _____

2. How many accounts are listed on the credit report? _____

3. List the delinquent credit, collections and charge-offs, if any, as reported on the credit report.

- Indicate how late the borrowers were (1x30, 2x60, etc.)
- Provide the date the borrowers were last delinquent, if available

Account Name	Account Type	# of Times Late	Date Last Delinquent

4. List any adverse public records as reported on the credit report.

5. List all inquiries in the past 90 days.

- Do the inquiries require an explanation and, if so, why?

6. What is each borrower's indicator score?

7. What is the representative credit score for the file?

8. List the current outstanding liabilities, the type of account and the corresponding monthly payment.

Creditor	Account Type	Payment

Appendix B

Exercise 2: Determining Gross Monthly Income

FRANKLIN ELEMENTARY SCHOOL 17 BARKER RD., PLEASANT VALLEY XY 99999											
SIMON, PETER		SOC SEC NO XXX-XX-2030		PERIOD ENDING 6/15/20		DEPOSIT DATE 6/15/20		DEPOSIT NO 930712			
PAYMENTS	RATE	HOURS	CURR AMT	YTD AMT	DEDUCTIONS	CURR AMT	YTD AMT	BENEFITS	CURR AMT	YTD AMT	
REGULAR SALARY			1854.16	20395.76	FLX-DEP CARE			DENTAL HEP-F	134.82	1483.02	
					FLX-HLTH CONTR	16.81	184.91	BENEFIT ADJ	3.75	41.25	
					FLX-MED EXP	250.29	2953.19	TEACHER PAY	93.69	1030.59	
					AETNA LIF INS	50.00	550.00	BOARD PAID	95.57	1051.27	
					FICA	99.62	1095.82	FICA	99.62	1095.82	
					FEDTAX / % GROSS			HEALTH HEP-F	672.82	7401.02	
					FED WITH TAX	138.48	1523.28	LIFE INSURANCE	13.72	150.92	
					HLTH INS			MEDICARE	23.30	256.30	
					LTS INS DED	12.25	134.75	VISION HEP-F	23.82	262.02	
					MEDICARE	23.30	256.30				
SIMON, PETER											
PAYMENTS											
					OE A DUES	31.27	343.97				
					XY TAX % GROSS						
					XY STATE TAX	71.64	788.04				
GROSS PAY - PRE-FED-TAX = FED TX GRS - FED TAX - STA TAX - FICA/MED - OTH DED								= NET PAY			
CURRENT	1854.16	317.10	1537.06	138.48	71.64	122.92	50.00		1154.02	LOC	MAR
YEAR-TO-DATE	20395.76	3488.10	16907.66	1523.28	788.04	1352.12	550.00		12694.22	HIG	M
										FED	STA
										2/M	0/M

a Employee's social security number xxx-xx-2030		OMB No. 1545-0008		This information is being furnished to the Internal Revenue Service. If you are required to file a tax return, a negligence penalty or other sanction may be imposed on you if this income is taxable and you fail to report it.			
b Employer identification number (EIN) 66-6003743		1 Wages, tips, other compensation 38,204.04		2 Federal income tax withheld 1,800.50			
c Employer's name, address, and ZIP code Franklin Elementary School 17 Barker Road Pleasant Valley, XY 99999		3 Social security wages 39,300.04		4 Social security tax withheld 2,436.60			
		5 Medicare wages and tips 39,300.04		6 Medicare tax withheld 569.85			
		7 Social security tips		8 Allocated tips			
d Control number		9		10 Dependent care benefits			
e Employee's first name and initial Last name Peter Simon		11 Nonqualified plans		12a See instructions for box 12 D 1,096.00			
12 Oakwood Lane Pleasant Valley, XY 99999		13 Statutory employee Retirement plan Third-party sick pay		12b			
f Employee's address and ZIP code		14 Other		12c			
				12d			
15 State XY 02345	16 State wages, tips, etc. 38,204.04	17 State income tax 1,768.00	18 Local wages, tips, etc.	19 Local income tax	20 Locality name		

a Employee's social security number xxx-xx-2030		OMB No. 1545-0008		This information is being furnished to the Internal Revenue Service. If you are required to file a tax return, a negligence penalty or other sanction may be imposed on you if this income is taxable and you fail to report it.			
b Employer identification number (EIN) 66-6003743		1 Wages, tips, other compensation 41,676.99		2 Federal income tax withheld 2,189.20			
c Employer's name, address, and ZIP code Franklin Elementary School 17 Barker Road Pleasant Valley, XY 99999		3 Social security wages 42,876.99		4 Social security tax withheld 2,658.37			
		5 Medicare wages and tips 42,876.99		6 Medicare tax withheld 621.72			
		7 Social security tips		8 Allocated tips			
d Control number		9		10 Dependent care benefits			
e Employee's first name and initial Last name Peter Simon		11 Nonqualified plans		12a See instructions for box 12 D 1,200.00			
12 Oakwood Lane Pleasant Valley, XY 99999		13 Statutory employee Retirement plan Third-party sick pay		12b			
f Employee's address and ZIP code		14 Other		12c			
				12d			
15 State XY 02345	16 State wages, tips, etc. 41,676.99	17 State income tax 2,029.30	18 Local wages, tips, etc.	19 Local income tax	20 Locality name		

Determine the borrowers' gross monthly income using the information provided on pages 18-19 and the pay stubs and W-2 statements here and on the following pages. See Appendix F on page 42 for the answers.

1. What type of pay periods do the following pay stubs reflect?

Franklin Elementary School – Peter Simon

- Weekly
- Bi-Weekly
- Semi-Monthly
- Monthly

Web Vision Inc. – Elizabeth Simon
(see pay stub on page 35)

- Weekly
- Bi-Weekly
- Semi-Monthly
- Monthly

(continued)

Appendix B

Exercise 2: Determining Gross Monthly Income (continued)

Company	Location	Department	Employee	Check #	Peter Simon			
LCA	PV.XY	023	5225	10032	Check Date: 06/19/2020	Period Ending: 06/19/2020	WEEKLY	
Learning Centers of America 273 River Road Pleasant Valley, XY 99999					Earnings			
					REGULAR	TOTAL EARNINGS	124.00	3100.00
Peter Simon 12 Oakwood Lane Pleasant Valley, XY 99999					Taxes			
					SOCIAL SECURITY		7.69	192.25
SSN: XXXXX2030					MEDICARE		1.80	45.00
					XY WITHHOLDINGS		.00	0.00
Withholding Tax Information					TOTAL TAXES		9.49	237.25
					Net Pay		114.51	2862.75
					Current	YTD		
Federal:								
XY:					.00	.00		

a Employee's social security number xxx-xx-2030		OMB No. 1545-0008		This information is being furnished to the Internal Revenue Service. If you are required to file a tax return, a negligence penalty or other sanction may be imposed on you if this income is taxable and you fail to report it.			
b Employer identification number (EIN) 89-7654321		1 Wages, tips, other compensation 5,004.48		2 Federal income tax withheld 0.00			
c Employer's name, address, and ZIP code Learning Centers of America 273 River Road Pleasant Valley, XY 99999		3 Social security wages 5,004.48		4 Social security tax withheld 310.28			
		5 Medicare wages and tips 5,004.48		6 Medicare tax withheld 72.56			
		7 Social security tips		8 Allocated tips			
d Control number		9		10 Dependent care benefits			
e Employee's first name and initial Last name Peter Simon 12 Oakwood Lane Pleasant Valley, XY 99999		11 Nonqualified plans		12a See instructions for box 12			
		13 Statutory employee Retirement plan Third-party sick pay		12b			
		14 Other		12c			
f Employee's address and ZIP code				12d			
15 State XY	Employer's state ID number 355502-1	16 State wages, tips, etc. 5,004.48	17 State income tax 0.00	18 Local wages, tips, etc.	19 Local income tax	20 Locality name	

Form **W-2 Wage and Tax Statement** 2018 Department of the Treasury—Internal Revenue Service Safe, accurate, FAST! Use **efile**

a Employee's social security number xxx-xx-2030		OMB No. 1545-0008		This information is being furnished to the Internal Revenue Service. If you are required to file a tax return, a negligence penalty or other sanction may be imposed on you if this income is taxable and you fail to report it.			
b Employer identification number (EIN) 89-7654321		1 Wages, tips, other compensation 5,304.00		2 Federal income tax withheld 0.00			
c Employer's name, address, and ZIP code Learning Centers of America 273 River Road Pleasant Valley, XY 99999		3 Social security wages 5,304.00		4 Social security tax withheld 328.85			
		5 Medicare wages and tips 5,304.04		6 Medicare tax withheld 76.91			
		7 Social security tips		8 Allocated tips			
d Control number		9		10 Dependent care benefits			
e Employee's first name and initial Last name Peter Simon 12 Oakwood Lane Pleasant Valley, XY 99999		11 Nonqualified plans		12a See instructions for box 12			
		13 Statutory employee Retirement plan Third-party sick pay		12b			
		14 Other		12c			
f Employee's address and ZIP code				12d			
15 State XY	Employer's state ID number 355502-1	16 State wages, tips, etc. 5,304.00	17 State income tax 0.00	18 Local wages, tips, etc.	19 Local income tax	20 Locality name	

Form **W-2 Wage and Tax Statement** 2019 Department of the Treasury—Internal Revenue Service Safe, accurate, FAST! Use **efile**

2. Calculate the monthly base income for each of the following jobs:

Franklin Elementary School – Peter Simon \$ _____
Web Vision Inc. – Elizabeth Simon \$ _____

*Note: Peter is paid 12 months per year in his teaching job.

3. Calculate the average monthly year-to-date income for each of the following jobs:

Franklin Elementary School – Peter Simon \$ _____
Web Vision Inc. – Elizabeth Simon \$ _____

4. Does the year-to-date income support stable monthly base pay?

Franklin Elementary School – Peter Simon Yes No
Web Vision Inc. – Elizabeth Simon Yes No
If no, what additional documentation is required?

5. Calculate the average gross monthly income for Peter Simon's second job with Learning Centers of America:
\$ _____

6. Do the past 2 years of W-2s support a history of stable income?

Franklin Elementary School – Peter Simon Yes No
Web Vision Inc. – Elizabeth Simon Yes No
Is additional documentation required?

WEB VISION INC.
314 FOREST AVENUE
PLEASANT VALLEY, XY 99999

CHECK DATE: 06/19/20
PERIOD ENDING: 06/19/20
PAY FREQUENCY: BI-WEEKLY

ELIZABETH SIMON	ID NUMBER: 3253	FED: MARRIED	2	FED:	ST:	PRI: XY	LOC1:	LOC3:
12 OAKWOOD LANE	BASE RATE: 2307.70	ST1: MARRIED	2	DI/UC		SEC:	LOC2:	LOC4:
PLEASANT VALLEY, XY 99999	SSN: XXX-XX-9652	ST2:		LOCAL:				LOC5:

IMPORTANT MESSAGE

HOURS AND EARNINGS				TAXES AND DEDUCTIONS				SPECIAL INFORMATION	
CURRENT		Y-T-D		CURRENT		Y-T-D			
DESCRIPTION	HOURS/UNITS	EARNINGS	HOURS/UNITS	EARNINGS	DESCRIPTION	AMOUNT	AMOUNT	VAC TAKEN	
REGULAR	75	2307.70	900.00	27692.40	SO SEC TAX	141.96	1704.69		.00
FLEX DOLLARS		175.08		1925.88	MEDICARE TAX	33.20	398.68		.00
					FED INC TAX	152.77	1833.24	SICK TAKEN	.00
					PRI-STATE TAX	121.04	1452.48	SICK BALANCE	.00
TOTAL H/E	75	2482.78	900.00	29618.28	TOTAL TAXES	448.97	5389.09		
PRE-TAX ITEMS				AFTER-TAX ITEMS				CURRENT NET PAY DISTRN	
401K\$		115.38		1384.56	401(K) LOAN	50.00	600.00	CHECK AMOUNT	1667.40
DENTAL INS		15.85		174.35	AFTER TAX LTD	8.00	88.00		
EE LIFE/ADD		10.20		112.20					
LTD		10.38		114.18					
HEALTH INS		156.60		1722.60					
TOTAL PRETAX		308.41		3507.89	TOTAL	58.00	688.00		
TOTAL		2174.37		26110.39					
GROSS		PRE-TAX	TAXABLE WGS	LESS TAXES	LESS DEDS	EQ NET PAY			
CURRENT	2482.78	308.41	2174.37	448.97	58.00	1667.40			
Y-T-D	29618.28	3507.89	26110.39	5389.09	688.00	20,033.30		TOTAL CURRENT NET PAY 1667.40	

7. Do the pay stubs reflect any loan deductions?

Franklin Elementary School – Peter Simon Yes No
 Web Vision Inc. – Elizabeth Simon Yes No
 If yes, should you include the deduction in the borrowers' total DTI ratio? Yes No

a Employee's social security number xxx-xx-9652		OMB No. 1545-0008				This information is being furnished to the Internal Revenue Service. If you are required to file a tax return, a negligence penalty or other sanction may be imposed on you if this income is taxable and you fail to report it.			
b Employer identification number (EIN) 12-3456789		1 Wages, tips, other compensation 52,440.70		2 Federal income tax withheld 3,480.88		3 Social security wages 55,200.60		4 Social security tax withheld 3,422.44	
c Employer's name, address, and ZIP code Web Vision Inc. 314 Forest Avenue Pleasant Valley, XY 99999		5 Medicare wages and tips 55,200.60		6 Medicare tax withheld 800.41		7 Social security tips		8 Allocated tips	
d Control number		9		10 Dependent care benefits		e Employee's first name and initial Last name Suff. Elizabeth Simon		11 Nonqualified plans	
f Employee's address and ZIP code 12 Oakwood Lane Pleasant Valley, XY 99999		13 Statutory employee <input type="checkbox"/> Retirement plan <input checked="" type="checkbox"/> Third-party sick pay <input type="checkbox"/>		12a See instructions for box 12 D 2,759.90		12b		12c	
15 State Employer's state ID number XY 555571-1		16 State wages, tips, etc. 52,440.70		17 State income tax 2,839.20		18 Local wages, tips, etc.		19 Local income tax	
								20 Locality name	


Form **W-2 Wage and Tax Statement** 2018 Department of the Treasury—Internal Revenue Service
 Safe, accurate, FAST! Use

a Employee's social security number xxx-xx-9652		OMB No. 1545-0008				This information is being furnished to the Internal Revenue Service. If you are required to file a tax return, a negligence penalty or other sanction may be imposed on you if this income is taxable and you fail to report it.			
b Employer identification number (EIN) 12-3456789		1 Wages, tips, other compensation 54,530.19		2 Federal income tax withheld 3,731.52		3 Social security wages 57,400.20		4 Social security tax withheld 3,558.81	
c Employer's name, address, and ZIP code Web Vision Inc. 314 Forest Avenue Pleasant Valley, XY 99999		5 Medicare wages and tips 57,400.20		6 Medicare tax withheld 832.31		7 Social security tips		8 Allocated tips	
d Control number		9		10 Dependent care benefits		e Employee's first name and initial Last name Suff. Elizabeth Simon		11 Nonqualified plans	
f Employee's address and ZIP code 12 Oakwood Lane Pleasant Valley, XY 99999		13 Statutory employee <input type="checkbox"/> Retirement plan <input checked="" type="checkbox"/> Third-party sick pay <input type="checkbox"/>		12a See instructions for box 12 D 2,870.01		12b		12c	
15 State Employer's state ID number XY 555571-1		16 State wages, tips, etc. 54,530.19		17 State income tax 2,996.24		18 Local wages, tips, etc.		19 Local income tax	
								20 Locality name	

Form **W-2 Wage and Tax Statement** 2019 Department of the Treasury—Internal Revenue Service
 Safe, accurate, FAST! Use

Appendix C

Exercise 3: Verifying Assets

		SEND INQUIRIES TO: TEACHERS CREDIT UNION PO Box 4999/Pleasant Valley, XY Direct Telephone Inquiries to: 1-238-765-4321 or 1-800-234-5678		STATEMENT OF ACCOUNT Page: 01				
PETER AND ELIZABETH SIMON 12 OAKWOOD LANE PLEASANT VALLEY XY 99999				Prepared For: Peter & Elizabeth Simon Account Number: 06083 Social Security Number: XXX-XX-2030 Statement Period: 04/01/20 through 04/30/20 Branch: 2				
DATE	CK/MEMO #	TRANSACTION DESCRIPTION	AMOUNT	BALANCE				
SHARE ACCOUNT NO. 06083- 00								
04/01		PREVIOUS BALANCE		959.90				
04/02	281981	DEPOSIT BY CHECK	8,000.00	8,959.90				
04/20	231677	WITHDRAWAL BY TRANSFER TRANSFER TO	-1,950.00	7,009.90				
04/20	231679	WITHDRAWAL BY CASH	-50.00	6,959.90				
04/30		NEW BALANCE		6,959.90				
TAX REPORTING SSN XXX-XX-2030 FOR PETER SIMON YTD DIVIDENDS EARNED 23.29								
SHARE DRAFT ACCOUNT NO. 06083- 71								
NO. CRS	3	NO. DBS	16	04/01	PREVIOUS BALANCE 86.69			
					TOTAL AMOUNT CREDITS 4,187.51			
					TOTAL AMOUNT DEBITS 4,106.49			
				04/30	NEW BALANCE 167.71			
04/02	240327	DEPOSIT BY CHECK	381.35	468.04				
04/02	281982	DEPOSIT BY CHECK	1,856.16	2,324.20				
04/05	2096	PRIMERICA LIFE/INS. PREM	-24.46	2,299.74				
04/06	1176	WITHDRAWAL BY CHECK	-135.28	2,164.46				
04/06	1178	WITHDRAWAL BY CHECK	-470.82	1,693.64				
04/09	1181	WITHDRAWAL BY CHECK	-97.46	1,596.18				
04/09	1177	WITHDRAWAL BY CHECK	-200.00	1,396.18				
04/09	1179	WITHDRAWAL BY CHECK	-274.00	1,122.18				
04/09	1180	WITHDRAWAL BY CHECK	-303.72	818.46				
04/10	3121	DISCOVER/SMART CHK	-200.00	618.46				
04/10	1182	WITHDRAWAL BY CHECK	-18.49	599.97				
04/10	1175	WITHDRAWAL BY CHECK	-60.00	539.97				
04/19	1184	WITHDRAWAL BY CHECK	-371.64	168.33				
04/20	231677	DEPOSIT BY TRANSFER TRANSFER FROM	1,950.00	2,118.33				
04/23	1187	WITHDRAWAL BY CHECK	-1,635.04	483.29				
04/26	1190	WITHDRAWAL BY CHECK	-53.30	429.99				
04/26	1188	WITHDRAWAL BY CHECK	-159.33	270.66				
04/27	1189	WITHDRAWAL BY CHECK	-81.62	189.04				
04/30	1191	WITHDRAWAL BY CHECK	-21.33	167.71				
CHECK #	DATE	AMOUNT	CHECK #	DATE	AMOUNT	CHECK #	DATE	AMOUNT
1175	04/10	60.00	1180	04/09	303.72	1188	04/26	159.33
1176	04/02	135.28	1181	04/09	97.46	1189	04/27	81.62
1177	04/05	200.00	1182	04/10	18.49	1190	04/26	53.30
1178	04/06	470.82	1184*	04/19	371.64	1191	04/30	21.33
1179	04/09	274.00	1187*	04/23	1,635.04			
* GAP IN CHECK SEQUENCE								
TAX REPORTING SSN XXX-XX-2030 FOR PETER SIMON YTD DIVIDENDS EARNED .00								
YEAR TO DATE TAX REPORTING SUMMARY BY TAX REPORTING SSN								
REPORTING SSN	DIVIDENDS EARNED	DIVIDENDS WITHHELD	CERTIFICATE PENALTY	MORTGAGE INTEREST	NON-MORTGAGE INTEREST			
XXX-XX-2030	23.29	0.00	0.00	0.00	0.00			

Refer to these bank statements and the information provided on pages 20-23 to answer the questions below. See Appendix F on page 43 for the answers.

1. Do the bank statements include all the required information? Yes No

2. What is the current balance for:

The checking account \$ _____

The savings account \$ _____

3. What concerns, if any, do you have regarding the bank statements?

4. Do the statement dates cover the required two-month time period? Yes No



SEND INQUIRIES TO:
 TEACHERS CREDIT UNION
 PO Box 4999/Pleasant Valley, XY
 Direct Telephone Inquiries to:
 1-238-765-4321 or 1-800-234-5678

STATEMENT OF ACCOUNT Page: 01

Prepared For: **Peter & Elizabeth Simon**
 Account Number: **06083**
 Social Security Number: **XXX-XX-2030**
 Statement Period: **05/01/20 through 05/31/20**
 Branch: **2**

PETER AND ELIZABETH SIMON
12 OAKWOOD LANE
PLEASANT VALLEY XY 99999

DATE	CK/MEMO #	TRANSACTION DESCRIPTION	AMOUNT	BALANCE				
SHARE								
ACCOUNT NO. 06083- 00								
05/01		PREVIOUS BALANCE		6,959.90				
05/07	233815	WITHDRAWAL BY TRANSFER	-200.00	6,759.90				
05/14	244104	WITHDRAWAL BY TRANSFER	-350.00	6,409.90				
05/17	235021	WITHDRAWAL BY TRANSFER	-185.00	6,224.90				
05/28	245846	WITHDRAWAL BY TRANSFER	-700.00	5,524.90				
05/28		DIVIDEND	37.11	5,562.01				
05/31		NEW BALANCE		5,562.01				
TAX REPORTING SSN XXX-XX-2030 FOR PETER SIMON YTD DIVIDENDS EARNED 60.40								
SHARE DRAFT								
ACCOUNT NO. 06083- 71								
NO. CRS	6	NO. DBS	19	05/01	PREVIOUS BALANCE	167.71		
					TOTAL AMOUNT CREDITS	2,108.35		
					TOTAL AMOUNT DEBITS	909.42		
				05/31	NEW BALANCE	1,366.64		
05/03	243055	DEPOSIT BY CHECK				381.35		549.06
05/03	1192	WITHDRAWAL BY CHECK				-10.00		539.06
05/04	1193	WITHDRAWAL BY CHECK				-18.49		520.57
05/07	2096	PRIMERICA LIFE/INS. PREM				-24.46		496.11
05/07	233815	DEPOSIT BY TRANSFER			TRANSFER FROM	200.00		696.11
05/07	1196	WITHDRAWAL BY CHECK				-35.89		660.22
05/07	1197	WITHDRAWAL BY CHECK				-39.78		620.44
05/10	1198	WITHDRAWAL BY CHECK				-18.31		602.13
05/11	1195	WITHDRAWAL BY CHECK				-10.00		592.13
05/11	1199	WITHDRAWAL BY CHECK				-80.63		511.50
05/14	244104	DEPOSIT BY TRANSFER			TRANSFER FROM	350.00		861.50
05/14	1201	WITHDRAWAL BY CHECK				-21.42		840.08
05/14	3121	DISCOVER/SMART CHK				-200.00		640.08
05/17	235021	DEPOSIT BY TRANSFER			TRANSFER FROM	185.00		825.08
05/17	235023	WITHDRAWAL BY CASH				-85.00		740.08
05/17	1200	WITHDRAWAL BY CHECK				-5.00		735.08
05/18	1205	WITHDRAWAL BY CHECK				-12.60		722.48
05/18	1206	WITHDRAWAL BY CHECK				-23.00		699.48
05/19	1204	WITHDRAWAL BY CHECK				-47.13		652.35
05/21	245088	DEPOSIT BY CHECK				292.00		944.35
05/21	1207	WITHDRAWAL BY CHECK				-18.49		925.86
05/21	1208	WITHDRAWAL BY CHECK				-34.27		891.59
05/21	1202	WITHDRAWAL BY CHECK				-150.00		741.59
05/28	1210	WITHDRAWAL BY CHECK				-74.95		666.64
05/28	245846	DEPOSIT BY TRANSFER			TRANSFER FROM	700.00		1,366.64
CHECK #	DATE	AMOUNT	CHECK #	DATE	AMOUNT	CHECK #	DATE	AMOUNT
1192	05/03	10.00	1199	05/11	80.63	1206	05/18	23.00
1193	05/04	18.49	1200	05/17	5.00	1207	05/21	18.49
1195*	05/11	10.00	1201	05/14	21.42	1208	05/21	34.27
1196	05/07	35.89	1202	05/21	150.00	1210*	05/28	74.95
1197	05/07	39.78	1204*	05/19	47.13			
1198	05/10	18.31	1205	05/18	12.60			
* GAP IN CHECK SEQUENCE								
TAX REPORTING SSN XXX-XX-2030 FOR PETER SIMON YTD DIVIDENDS EARNED .00								
YEAR TO DATE TAX REPORTING SUMMARY BY TAX REPORTING SSN								
REPORTING SSN	DIVIDENDS EARNED	DIVIDENDS WITHHELD	CERTIFICATE PENALTY	MORTGAGE INTEREST	NON-MORTGAGE INTEREST			

5. If the large deposit of \$8,000 was due to a gift received from a relative, what documentation is required?

6. If the large deposit of \$8,000 was due to a sale of a personal asset, what documentation is required?

Appendix D

Appraisal Report Checklist

APPRAISAL REPORT CHECKLIST



This checklist is designed to help you review the following appraisal reports: Uniform Residential and Manufactured Home. Checklist answers printed in blue boldface designate cautionary items that may require additional comment by an appraiser and further review.

Borrower Name: _____
 Subject Property Address: _____

Subject Section ▶

- 1] Do the property address and seller/borrowers' names match the loan file? Yes No
- 2] Is the buyer or seller an LLC or Corporation? Yes No
- 3] Are there any Special Assessments? Yes No
- 4] How are the property rights appraised? Fee Simple Leasehold Other
- 5] Has the subject property been offered for sale in the past 12 months? Yes No

Contract Section ▶

- 6] Did appraiser analyze the contract (if applicable)? Yes No
- 7] Is the contract an arms length sale? Yes No
- 8] Does the owner of public record match the seller names on the contract? Yes No
- 9] Is there any financial assistance being paid by any party on behalf of the borrower? Yes No
- 10] If *manufactured home*, did the appraiser review the manufacturer's invoice? Yes No

Neighborhood Section ▶

- 11] Is the location rural or less than 25% built up? Yes No
- 12] Are property values declining? Yes No
- 13] Does demand/supply reflect an oversupply? Yes No
- 14] Is the marketing time more than six months? Yes No
- 15] Is the sales price within the neighborhood price range? Yes No
- 16] Does the subject property conform to the present land use? Yes No
- 17] Are there any negative comments in the Neighborhood section? Yes No

HUD Data Plate (Manufactured Home Appraisal Report Only) ▶

- 18] Is the HUD Data Plate/Compliance Certificate attached to the dwelling? Yes No
- 19] Is a HUD Certificate label attached to the exterior of each section of the dwelling? Yes No
- 20] Do the Wind, Roof Load and Thermal Zone meet minimum HUD requirements for the location of the subject property? Yes No

Site Section ▶

- 21] Is the zoning rated legal nonconforming or illegal? Yes No
- 22] Is the present use the highest and best use? Yes No
- 23] Are the Utilities and/or Off-Site Improvements public? Yes No
- 24] Is the property in a Special Flood Hazard area? Yes No
- 25] Are there any adverse comments, (e.g., environmental conditions, land uses, easements, view, etc.) in the Site section?
 If Manufactured Home ▶
 - 26] Are the site size, shape and topography generally conforming and acceptable in market area? Yes No
 - 27] Is there adequate vehicular access to subject property? Yes No
 - 28] Is the street properly maintained? Yes No

Improvements Section ▶

- 29] Does the Condition Rating of C1-C6 meet guidelines or investor criteria? Yes No
- 30] Are there any comments indicating adverse property conditions (e.g., settlement, dampness, repairs, etc.)? Yes No
- 31] Are there any physical deficiencies or adverse conditions that affect the livability, soundness or structural integrity of the property? Yes No
- 32] Does the property conform to the neighborhood? Yes No
- 33] If *manufactured home*, does the Design (style) indicate the number of sections as one? Yes No

Sales Comparison Approach ▶

- 34] Does the Quality Rating of Q1-Q6 meet guidelines or investor criteria? Yes No
- 35] Are the comparable sales located within an acceptable distance from the subject? Yes No
- 36] Is the sales price/gross living area for the subject property consistent with the comparable sales? Yes No
- 37] Did the appraiser use only data or verification sources that are non-public or non-MLS such as builder or developer? Yes No
- 38] Are there three comparable sales that have closed within the last six months or appropriate time frame for current market conditions? Yes No
- 39] Did the appraiser select a rating and factor for both location and view? Yes No
- 40] Are the comparables similar to the subject in location, design, age, size, room count and amenities? Yes No
- 41] Did the appraiser explain and support with market data any superior comparable sales? Yes No
- 42] If the subject property is in a controlled market, is there at least one comparable sale outside the control of the developer, builder or property seller? Yes No
- 43] If the subject property is a *manufactured home*, are there a minimum of two comparable sales that are also manufactured homes with similar features including overall quality and condition? Yes No
- 44] If the subject has unusual features, did the appraiser provide additional comparable sales with similar characteristics? Yes No

continued ▶

Additional Comments ▶

- 45] Did the appraiser provide comments to support the market value conclusions provided in the report? Yes No
- 46] Did the appraiser provide an appropriate explanation for any findings that show a significant or unusual variance between the subject property and comparables (e.g., unique design of home, subject's sales price much lower than comparables)? Yes No

Reconciliation ▶

- 47] Is the appraisal made "as is"? Yes No
- 48] Is the appraisal less than four months old? Yes No
- 49] Does the appraised value support the sales price? Yes No
- 50] Are there any negative comments? Yes No

Cost Approach (Must be completed if Manufactured Home) ▶

- 51] Is the land-to-value ratio typical for the area? Yes No
- 52] Is functional and/or external depreciation indicated? Yes No

PUD Information (If Applicable) ▶

- 53] Is developer/builder in control of the Homeowner's Association (HOA)? Yes No
- 54] Was the project created by conversion of an existing building(s) into a PUD? Yes No
- 55] Does the project contain any multi-dwelling units? Yes No
- 56] Are the units/common elements and recreation facilities complete? Yes No
- 57] Are the common elements leased to or by the Homeowner's Association? Yes No

Exhibits ▶

- 58] Did the appraiser provide photographs of the subject property's kitchen, bathrooms and main living area? Yes No
- 59] Does the appraisal contain clear photos of the front, back and street scene of the subject property and the front of each comparable sale? Yes No
- 60] Are the photographs in color and clear? Yes No
- 61] Did the photographs show items described such as railroad tracks, powerlines, etc.? Yes No
- 62] Do the photographs of the subject property reflect weather consistent with date of appraisal? Yes No
- 63] Did appraiser comment if photo is not consistent with weather conditions? Yes No
- 64] Is there a street map that identifies the locations of the subject and comparable sales? Yes No
- 65] Does the building sketch differ from the bedroom and bath counts in the body of the appraisal? Yes No
- 66] Do the photos of the subject and comparables reflect similar design and appeal? Yes No
- 67] Do any of the exhibits include adverse comments? Yes No

Appraiser's Certification ▶

- 68] Is the appraisal signed and dated and is the Appraiser Certification or License number and expiration date entered? Yes No

▶ The MGIC Appraisal Report Checklist is designed to assist you in analyzing appraisals. The Checklist is not intended, nor should it be relied upon, as all-inclusive. Refer to Investor or Agency Guidelines for specific appraisal requirements. Use of the Checklist does not guarantee the accuracy of any appraisal, that an appraisal will satisfy applicable requirements or that any loan will be approved for purchase, mortgage insurance or other purposes. The Checklist is not intended as legal advice. MGIC EXPRESSLY DISCLAIMS ANY AND ALL WARRANTIES, EXPRESSED OR IMPLIED, INCLUDING WITHOUT LIMITATION, WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE. MGIC AND ITS AFFILIATES WILL NOT BE LIABLE FOR ANY DAMAGES OF ANY KIND ARISING FROM USE OF THE CHECKLIST.

Checklist completed by ▶ _____

Date ▶ _____

Appendix E

The Sales Contract

Below are some of the important elements you need to ensure are contained in the contract:

- 1 Names of buyers
- 2 Property address and description
- 3 Sales price
- 4 The date the lender must approve the mortgage by
- 5 Type of financing (e.g., Fixed, ARM)
- 6 Discount points
- 7 Earnest money deposit
- 8 Closing date
- 9 Date of possession

RESIDENTIAL OFFER TO PURCHASE

May 24 _____, 20 XX

THE BROKER DRAFTING THIS OFFER IS THE AGENT OF (SELLER ~~(BUYER)~~ strike as applicable).
 IF ACCEPTED, THIS OFFER CAN CREATE A LEGALLY ENFORCEABLE CONTRACT BOTH PARTIES SHOULD READ THIS DOCUMENT CAREFULLY AND UNDERSTAND IT BEFORE SIGNING.

1 The undersigned Buyer, Peter Simon and Elizabeth Simon
 hereby offers to purchase the property known as (Street Address) 126 Lakeview Lane
 in the city of Pleasant Valley County of Valley
 2 more particularly described as: Lot 4, Block B

3 SALES PRICE:
 A. Cash portion of Sales Price payable by Buyer at closing \$20,000.00
 B. Sum of all financing described below \$180,000.00
 C. Sales Price (Sum of A and B) \$200,000.00

FINANCING: The portion of Sales Price not payable in cash will be paid as follows: (Check applicable boxes below)

4 A. CONVENTIONAL FINANCING: The Contract is contingent upon Buyer securing on or before June 8, 20XX
 5 a written commitment for a Conventional fixed rate (Type) Mortgage Loan of \$180,000 or such lesser amount as
 as Buyer elects to take the interest rate (initial rate, if applicable) shall not exceed % per annum, amortized over not less than
 years. Buyer shall pay loan origination fee and/or discount points not to exceed % of the loan amount. Seller shall
 6 pay loan origination fee and/or discount points not to exceed N/A % of the loan amount. Those fees/points committed to by
 Buyer shall be applied first.
 B. ASSUMPTION: The assumption of the unpaid principal balance of one or more promissory notes described in the attached
 Loan Assumption Addendum.
 C. SELLER FINANCING: A promissory note from Buyer to Seller of \$
 bearing
 % interest per annum, secured by vendor's and deed of trust liens, and containing the terms and conditions described in the
 attached Seller Financing Addendum. If an owner policy of title insurance is furnished, Buyer shall furnish Seller with a
 mortgage policy of title insurance.

7 EARNEST MONEY: Upon execution of this contract by both parties, Buyer shall deposit \$3000 as earnest money with
Sam Roberts as escrow agent, at Home Realty Title Co., 100 Memorial Drive (address).
 Buyer shall deposit additional earnest money of \$ N/A
 with escrow agent on or before
 If Buyer fails to deposit the earnest money as required by this contract, Buyer will be in default.

Buyer agrees that unless otherwise specified, Buyer will, in good faith, pay all costs of securing any financing to the extent
 permitted by law, and will perform all acts necessary to expedite such financing.

Included in the purchase price are such of the following items as may be on the property on the date of this offer, which
 will be delivered free and clear of encumbrances: all fixtures; all garden bulbs; plants, shrubs and trees; screen and storm doors and
 windows; electric lighting fixtures; curtain and traverse rods; blinds and shutters; central heating and cooling units and attached
 equipment; water heaters and softener; sump pump; attached or fitted floor coverings; awnings; exterior attached antennas and
 component parts; garage door opener and remote control; installed security systems.
 ADDITIONAL ITEMS INCLUDED IN THE SALE: window coverings, dishwasher

ITEMS NOT INCLUDED IN THE SALE: Hot tub

Seller shall, upon payment of the purchase price, convey the property by warranty deed, or other conveyance provided
 herein, free and clear of all liens and encumbrances, excepting: municipal zoning ordinances, recorded easements for public utilities
 serving the property, recorded building and use restrictions and covenants, general taxes levied in the year of closing, and N/A
 provided none of the foregoing prohibit present use, and shall complete and execute the documents necessary to record the
 conveyance. (WARNING: Recorded building and use restrictions and covenants can have material impact on the use of or
 improvements to the property.)
 (Buyer/Seller) will be responsible for compliance with DILHR's rental weatherization program requirements unless this
 transaction is exempt from the requirements because it is residential property of 1 to 4 units which will be occupied by the
 purchaser for at least one year after transfer or otherwise exempt because N/A
 (Strike as applicable)

This offer is binding upon both parties only if a copy of the accepted offer is deposited, postage or fees prepaid, in the U.S. mail or a
 commercial delivery system, addressed to Buyer at 12 Oakwood Lane, Pleasant Valley, XY 99999
 or by personal delivery of the accepted offer to Buyer on or before May 26, 20XX
 Otherwise, this offer is void and all earnest money shall be promptly returned to Buyer.

8 This transaction is to be closed at the office of Buyer's mortgagee or at the office of Home Realty on or before June 29, 20XX
 or at such other time and place as may be agreed in writing.

Legal possession of property shall be delivered to Buyer on date of closing.

It is understood the property is now occupied by seller
 under (oral lease) (written lease), which terms are N/A

9 Occupancy of 126 Lakeview Lane shall be given to Buyer on closing/funding

If Seller is permitted to occupy property after closing, Seller shall prepay occupancy charge of \$ N/A per day, which
 (shall) (shall not) be refundable based on actual occupancy.

The sum of \$ N/A shall be withheld from the purchase price to be escrowed with N/A
 to guarantee delivery of occupancy to Buyer AND FOR NO OTHER PURPOSE, which sum upon Seller's failure to deliver occupancy
 shall be paid to Buyer as liquidated damage or returned to Seller if occupancy is delivered to Buyer on the agreed date.

(Seller warrants) (Map dated May 1, 20XX) 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 contract 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 diligence 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)
Buyer's Social Security No. XXX-XX-2020

Elizabeth Simon (buyer)
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)
Seller's Social Security No. XXX-XX-7890

Offer is rejected (Seller initial) _____
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

10 Signatures

Miscellaneous Items

There may be additional items included in the contract or as addenda, such as:

- Repairs
- Contingencies (sale of the buyers' home, property inspection, etc.)
- Seller contributions
- Counteroffer(s)

Appendix F

Answer Key

Exercise 1: Navigating the Credit Report

- Identify the 3 repository sources:
 - Equifax
 - Experian
 - TransUnion Corp
- How many accounts are listed on the credit report? **9**
- List the delinquent credit, collections and charge-offs, if any, as reported on the credit report.
 - Indicate how late the borrowers were (1x30, 2x60, etc.)
 - Provide the date the borrowers were last delinquent, if available

Account Name	Account Type	# of Times Late	Date Last Delinquent
Gas Card	Revolving	1x30	5/19

- List any adverse public records as reported on the credit report. **None**
- List all inquiries in the past 90 days. **Pentagroup**
Do the inquiries require an explanation and, if so, why?
Yes, the Pentagroup inquiry could be a new loan.
- What is the indicator score for each borrower?
720 & 742
- What is the representative credit score for the file? **720**
- List the current outstanding liabilities, the type of account and the corresponding monthly payment.

Creditor	Account Type	Payment
American Mortgage	Mortgage	\$931
Autoworld	Installment	\$500
Autoworld	Installment	\$368
Higher Education	Installment (Deferred)	\$160
Acme Credit	Revolving	\$32
Discover	Revolving	\$50

Exercise 2: Determining Gross Monthly Income

- What type of pay periods do the following pay stubs reflect?
 - Franklin Elementary School – Peter Simon **Semi-Monthly**
 - Web Vision Inc. – Elizabeth Simon **Bi-Weekly**
- Calculate the monthly base income for each of the following jobs:
 - Franklin Elementary School – Peter Simon **\$3,708.32**
 - Web Vision Inc. – Elizabeth Simon **\$5,000.02**
- Calculate the average monthly year-to-date income for each of the following jobs:
 - Franklin Elementary School – Peter Simon **\$3,708.32 or \$3,708.00 (averaged over 5.5 months)**
 - Web Vision Inc. – Elizabeth Simon **\$4,918.72 or \$4,919.00 (averaged over 5.63 months)**
- Does the year-to-date income support stable monthly base pay?
 - Franklin Elementary School – Peter Simon **Yes**
 - Web Vision Inc. – Elizabeth Simon **Yes**
 If no, what additional documentation is required **None**
- Calculate the average monthly income for Peter Simon’s second job with Learning Centers of America:
\$452.53 or \$453.00 (29.63-month average)
- Do the past 2 years of W-2s support a history of stable income?
 - Franklin Elementary School – Peter Simon **Yes**
 - Web Vision Inc. – Elizabeth Simon **Yes**
 Is additional documentation required? **No**
- Do the pay stubs reflect any loan deductions?
 - Franklin Elementary School – Peter Simon **No**
 - Web Vision Inc. – Elizabeth Simon **Yes**
 If yes, should you include the deduction in the borrowers’ total DTI ratio?
Because the loan is a 401(k) loan secured by the borrower’s retirement savings, a financial asset, you do not need to include it in the total DTI ratio.

Exercise 3: Verifying Assets

1. Do the bank statements include all the required information?

Yes

2. What is the current balance for the checking account?

\$1,366.64

What is the current balance for the savings account?

\$5,562.01

3. What concerns, if any, do you have regarding the bank statements?

There is a recent, large deposit of \$8,000 on April 2. The \$3,000 earnest money cash deposit is not verified on the bank statement. This may require follow-up if there is not adequate cash for closing and reserves (if required).

4. Do the statement dates cover the required 2-month time period? Yes

5. If the large deposit of \$8,000 was due to a gift received from a relative, what documentation is required?

A gift letter signed by the donor stating:

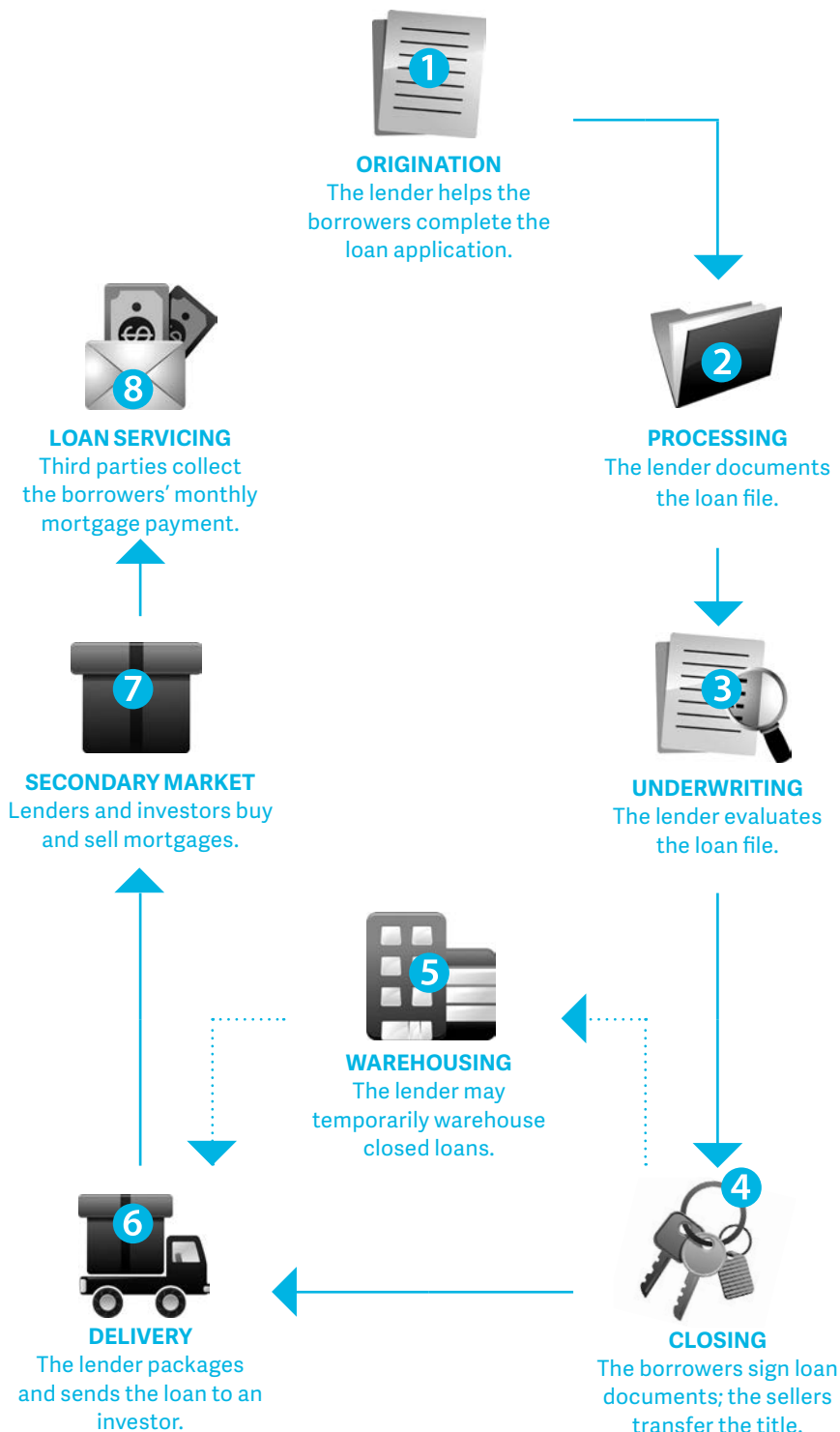
- Donor's name and relationship to the borrowers
- Donor's mailing address and phone number
- Amount of the gift and the date the borrowers received it
- Repayment is not expected or required

6. If the large deposit of \$8,000 was due to a sale of a personal asset, what documentation is required?

Provide proof of ownership of the asset being sold. Provide verification of the value of the asset being sold from an acceptable third-party source. Provide a copy of the bill of sale and evidence of receipt of funds.

Appendix G

The 8 Stages of the Mortgage Cycle



**mortgage guaranty
insurance corporation**

MGIC Plaza
Milwaukee, WI 53202
mgic.com

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71-42873 12/20