

PUTTING THE PIECES TOGETHER

Evaluating Credit,  
Capacity, Capital  
& Collateral

4

# Introduction

It all starts with a dream of owning a home. To turn that dream into reality, a consumer usually turns first to a loan originator or a real estate agent for help.

As a member of the mortgage industry, consumers look to you for guidance throughout the home-buying 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 that's why we prepared this program, *Putting the Pieces Together*.

*Putting the Pieces Together* takes the main pieces of the home-buying process and explores and explains each piece, from taking a loan to closing, servicing and selling it. You'll learn how The Four Cs of the mortgage industry — Credit, Capacity, Capital and Collateral — can help determine whether a consumer can be a successful homeowner.

Once you have completed this course, you can better position yourself as an expert to your customers. Whether you are prequalifying consumers and determining what they can afford; or you are guiding them through the current real estate market and targeting homes in their price range, consumers look to you for expert advice and direction. You'll be able to explain to them exactly how The Four Cs will affect their ability to purchase and own a home.

The mortgage business is a risk-based business. But the more you know and understand about the process, the more it will help minimize that risk for your company and your customers — and the more it will increase your success as a mortgage professional. *Putting the Pieces Together* puts all the information you need in a convenient, easy-to-read package.

If you have questions about any of the information presented in *Putting the Pieces Together*, please contact your MGIC Account Manager.

## Symbol Key

The following icons are used throughout the *Putting the Pieces Together* series to highlight details, tips and shortcuts to greater understanding of the Mortgage Cycle.



**Dictionary:** Industry jargon and acronyms explained in straightforward language



**File It:** Important documents that must be included in the loan file



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



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



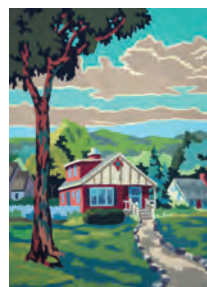
**Check This Out:** Information about MGIC resources relative to the topic at hand



Book 1  
Understanding  
the Mortgage Cycle



Book 2  
Taking the Loan  
Application



Book 3  
Processing the Loan  
Application



Book 4  
Evaluating Credit,  
Capacity, Capital  
& Collateral



Book 5  
Understanding  
How Mortgage  
Insurance Works



## BOOK 4

# Evaluating Credit, Capacity, Capital & Collateral

The materials included in this publication are intended for general information only. This publication is not intended to be complete or all-inclusive regarding the matters discussed herein, and nothing contained in this publication is intended, or should be relied upon, as legal, accounting, compliance or other professional advice. Consequently, this publication should not be used as the basis for specific action without obtaining the advice of knowledgeable and experienced professionals.

Although MGIC believes 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 MGIC does 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 the views of MGIC.

This publication is intended for the sole internal use of the recipient and may not be reproduced, in whole or in part, or stored in any electronic or retrieval system, or transmitted in any form or by any means, without the prior written consent of MGIC.

© 2012 Mortgage Guaranty Insurance Corporation. All Rights Reserved.

Desktop Underwriter® and DU® are registered trademarks of Fannie Mae; Loan Prospector® and LP® are registered trademarks of Freddie Mac.

## Table of Contents

<b>MAKING AN INFORMED UNDERWRITING DECISION</b>	2
Credit Risk:	2
Measuring Willingness to Repay	
Navigating Through the Credit Report	4
<b>CAPACITY: ASSESSING THE ABILITY TO REPAY</b>	12
Evaluating Income	12
<b>CAPITAL: EVALUATING THE COMMITMENT TO REPAY</b>	16
Examining the Borrowers' Assets	16
<b>COLLATERAL RISK: CONFIRMING THE PROPERTY'S VALUE &amp; MARKETABILITY</b>	18
Establish Value & Marketability	18
<b>THE FOUR Cs — YOUR GUIDE TO QUALITY</b>	21
<b>APPENDICES</b>	21
APPENDIX A: Exercise 1: Navigating Through the Credit Report	22
APPENDIX B: Exercise 2: Determining Gross Monthly Income	23
APPENDIX C: Exercise 3: Verifying Assets	26
APPENDIX D: The Appraisal Report	28
APPENDIX E: The Sales Contract	34
APPENDIX F: Answer Key	36
APPENDIX G: The Eight Stages of the Mortgage Cycle	38

# MAKING AN INFORMED UNDERWRITING DECISION

The loan has been processed and documented. The diligent groundwork of the processor has prepared us for the Underwriting stage of the Mortgage Cycle (page 38) where all of the bits and pieces of data and documentation come together.

Here, at the hand of the underwriter's keen analytic skills, The Four Cs are measured, the big picture is revealed, and the borrowers' request for a mortgage loan is soundly answered.

While Credit, Capacity, Capital and Collateral are evaluated as a whole to come to a decision, we will examine them individually. 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 five 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 the borrowers' 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 be successful homeowners, that is, more likely to repay their mortgages.

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.

Each borrower should have an adequate credit history defined by the number of accounts and length of time the accounts have been used.

**Established credit** – Borrowers with established credit have a history that can be verified through traditional credit reports.

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

**Re-established credit** – When the credit report indicates that borrowers have a history of late payments, acceptable credit must be re-established.

Where there are late payments, underwriting judgment is required 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 size of account balances. 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.

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



### Common types of 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 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 worked out with creditors.

**Nonestablished credit** – A borrower whose credit cannot be verified through traditional sources is considered to have nonestablished credit. Nontraditional credit references must be used for these borrowers. See *Nontraditional documentation* below.

**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 is difficult to make a prudent underwriting decision with no credit history.

## Credit Documentation

At this stage of the game, your processor has gathered credit documentation to substantiate your borrowers’ credit history in one of two forms:

**Traditional documentation** – includes any type of credit reported on a credit report, such as credit cards, department store accounts, auto loans and mortgage debt.



### 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.**

**Nontraditional documentation** – is used in cases where borrowers have not established traditional credit and includes alternative information to document their credit history, such as:

- receipts for current and previous rent payments
- verification of utility payments, such as telephone, electrical, cable TV, cell phone, etc.

Many investors require nontraditional credit to be reported on a nontraditional credit report. (See *The Credit Report*.)

## The Credit Report

The credit report offers a unique, two-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.

Three 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 those that need to evaluate individual consumer’s creditworthiness.



**All credit reports for an individual borrower must not be more than 120 days old at closing or 180 days old at closing for new construction loans.**

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 two 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.

**In-File Credit Report** – Information is taken separately from one or more credit repositories with no merging, editing, updating or confirmation of employment, residence or public records. Separate reports must be requested from each credit repository. These reports typically cost less than the RMCR.

**Merged Credit Report** – Data is drawn from two or more credit repositories and then matched and merged 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 those prospective borrowers who have not yet established a credit history or who do not use traditional credit. An NTMCR may not be used to enhance the traditional credit history of borrowers with poor payment records.

# Navigating Through the Credit Report

Sample - Residential Mortgage Credit Report (RMCR) 06/06/2012 ID: 999999500603333  
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	1467	117	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	148857	1916	173251	9	1	0	0
# Inquiries 1	# Public Records 0	# Bankruptcies 0					
	Oldest Date 03/01/08	# 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  
1000 ANY STREET, SUITE 200  
PLEASANT VALLEY, XY 99999

Loan #: 500603333

Date Received: 06/06/12  
Date Printed: 06/06/12  
Date Revised: 06/06/12

The look and layout of a credit report varies, depending on the type of report requested and the company providing it; but the information presented is similar. It's important to become familiar with the different types of reports so you can locate key information easily and quickly.



Using the information on the following pages, complete the Navigating Through the Credit Report exercise on page 22 to practice locating pertinent information.

**1 Identifying information** – This section provides critical information that identifies each borrower and should match the information found on the 1003, including:

- applicant names, including spouse's, if applicable
- nicknames, aliases (AKAs)
- Social Security number
- current addresses

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

Additional identifying information will be included later on in the report.

**2 Credit scores** – Credit scores may or may not appear on the credit report, depending on your company/investor requirements.

If they are on the credit report, they provide a way of quickly assessing the borrowers' credit quality. The credit reporting agencies arrive at these scores by evaluating risk factors through a series of automated statistical models. TransUnion Corp. (TUC) uses the Emperica Score Model; Experian (XPN), the Fair Isaac Score Model; and Equifax (EFX), the Beacon Score Model.

The resulting numeric score indicates the likelihood of a borrower repaying the loan 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 two credit scores for every applicant, but prefer three 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.

## Which Credit Score to Use

### Example: 1 borrower / 2 scores

Credit Repository	Borrower's Credit Score
TransUnion	680
Equifax	674

If two scores are provided, the representative/indicator score is the lower of the two scores — 674 in this case.

### Example: 1 borrower / 3 scores

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

If three scores are provided for one borrower, drop the highest and lowest scores (685 and 666). The remaining score is the representative/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 three 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 two remaining scores (660 for Borrower A; 685 for Borrower B). The lower of the two is the representative/indicator score — 660 in this example.

## Navigating Through the Credit Report (continued)

Applicant <span>3</span>		Co-Applicant	
Input Information: PETER SIMON SSN: XXX-XX-2030      DOB: 03/06/70  12 OAKWOOD LANE PLEASANT VALLEY XY 99999 SINCE: 04/01/10  Previous Address: (ADDRESS)  PREVIOUS ADDRESS: (ADDRESS)		Input Information: ELIZABETH SIMON SSN: XXX-XX-9652      DOB: 08/01/74  12 OAKWOOD LANE PLEASANT VALLEY XY 99999 SINCE: 04/01/10  Previous Address: (ADDRESS)  PREVIOUS ADDRESS: (ADDRESS)	
EMPLOYMENT INFORMATION			
Present Employment: FRANKLIN ELEMENTARY Since: 09/01/09  Previous Employment (EMPLOYMENT)		Present Employment: WEBVISION Since: 05/01/01  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
Fraud Alert			
No Fraud Records Found.			
<span>4</span> No Public Record Information Found.			



3 **Identifying information** – More detail identifying the borrowers is included in this section of the credit report, including:

- previous addresses
- current and previous employers
- date of birth

4 **Public record information** – identifies state and county court records related to bankruptcies, tax liens or monetary judgments. In some states, the credit report will list overdue child support payments.



As a general rule, all judgments, collections and lawsuits must be paid or satisfied in full by the borrowers prior to, or at, closing. In addition, the borrowers must provide a thorough, written explanation. Review investor guidelines for specific requirements as there may be exceptions to the rule.

## Navigating Through the Credit Report (continued)

5 ** Credit History **									
E	Creditor	Type	Date Rptd	Hi Cred	Status	MR	30	60	Vendor
C	Account #	Terms	Date Open	Balance	Past Due	Amount			90
O			Last Actv	Payment					
A									
1	AMERICAN MORTGAGE	INS	05/12	118000	Current				
24789		360 M 931	04/10	116850	0	0	0	0	
			05/12	931					
History: 11111111111111111111			From: 04/10						
MORTGAGE									
2	HOME MORTGAGE CO	INS	03/10	125000	Current				
37726895909		360 M 987	03/08	0	0	0	0	0	
			03/10	0					
History: 11111111111111111111			From: 03/08						
MORTGAGE									
ACCOUNT TRANSFERRED OR SOLD; CONVENTIONAL; CLOSED 03/10									
2	AUTO WORLD	INS	05/12	15000	Current				
124578		72 M 500	01/11	10000	0	0	0	0	
			05/12	500					
History: 1111111111			From: 01/11						
AUTO									
1	AUTO WORLD	INS	05/12	16000	Current				
986532		63 M 368	02/09	4789	0	0	0	0	
			05/12	368					
History: 11111111111111111111			From: 02/09						
AUTO									
8	HIGHER EDUCATION	INS	12/11	15751	Deferred				
1348AP9527		120 M 160	08/10	15751	0	0	0	0	
			01/12	160					
History:			From: 08/10						
PAYMENT DEFERRED; STUDENT LOAN NOT IN REPAYMENT									
8	CREDIT CO.	REV	01/12	2000	Closed				
51087432895		0	03/11	0	0	0	0	0	
			01/12	0					
History: 1111			From: 03/11						
CREDIT CARD									
ACCOUNT CLOSED BY CONSUMER 01/08; ACCOUNT CLOSED AT CONSUMERS REQUEST									
8	ACME CREDIT	REV	05/12	1500	Current				
60190024554		32	11/10	121	0	0	0	0	
			05/12	32					
History: 1111111111111111			From: 11/10						
CHARGE ACCOUNT									
3	GAS CARD	REV	05/12	2000	Current				
8711543982		35	06/10	346	1	0	0	0	
			05/12	35					
History: 11111111111211111111			From: 06/10						
CREDIT CARD									
8	DISCOVER CARD	REV	05/12	5000	Current				
97531246890		50	06/10	1000	0	0	0	0	
			05/12	50					
History: 1111111111111111111111111111			From: 06/10						
CREDIT CARD									

**5 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 repay or 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 that the balance be paid off each month — for example, American Express
- M denotes a mortgage loan

The meaning of the codes is usually indicated on the report.



When the monthly payment is not included for a revolving account, the payment should be calculated at 5% of the stated balance or \$10, whichever is greater.



If your borrowers currently have a mortgage that is not included on the credit report, you will need to 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.



Debts with 10 or fewer months remaining can generally be excluded from the total liabilities. The exception to this rule is an auto lease payment, which must be counted, regardless of the number of months remaining, as typically it would be replaced with a new lease or loan payment on the buyout of the current lease.

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 001111111011 or 00XXXXXX0XX, where:

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

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

The number of times a borrower was 30, 60 or 90 days late will be tallied 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** – Collections are usually identified 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 creditor has not been paid for a significant period of time, 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 the borrowers. Charge-offs will usually be indicated as 'Charge-Off' or a 9 rating (e.g., R9).



It's very important to be able to recognize delinquent or adverse credit on a credit report. Adverse credit can be reported many different ways, depending upon the individual credit reporting agency.

## Navigating Through the Credit Report (continued)

6 Inquiries				
Date	Ecoa	Member No	Comments	Vendor
04/01/2012	1	00004343 00093256	PENTAGROUP F	TRU01 TRU01
Additional Information				
No Additional Information Found				
CONSUMER REFERRAL INFORMATION				
EQUIFAX CREDIT INFORMATION SERVICES				EFX06
PO BOX 740241				
ATLANTA, GA 30374-0241				
800-685-1111				
TRANS UNION CORPORATION				TRU32
760 SPROUL ROAD				
PO BOX 390				
SPRINGFIELD, PA 19064-0390				
800-916-8800				
EXPERIAN				XPNTD
PO BOX 2002				
ALLEN, TX 75013-2104				
888-397-3742				
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				

- 6 Inquiries** – This section of the credit report identifies the names of all credit grantors who obtained a copy of your borrowers' credit report for any reason. Additionally, it lists anyone who accessed the report over the past two years. Federal law requires the two-year retention for employer inquiries, but only six months for credit grantor inquiries.

## 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 1003?

- Check Social Security numbers to ensure that the report received is for the correct borrowers.
- Compare employment information on both documents. If it's not a match, obtain from the borrowers an explanation clarifying the difference.
- If any debts are missing from the credit report, obtain from the borrowers a separate verification for each missing debt. If debts appear on the credit report but not on the 1003, obtain a written explanation as to why the debts were not disclosed. Modify the 1003 to include the debts.

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

A credit history for each borrower listed on the 1003 must be evaluated according to your company/investor credit guidelines.

### What is the intent of the guideline?

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

### Does the information received satisfy the intent of the guideline? If not, what information can be provided that would satisfy it?

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

### Are there any new loans appearing 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 the new loan is secured by the property or is an unsecured loan. If it is an unsecured loan, 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 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 to 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

## 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 and includes many considerations. For example:

- *Is the amount of 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 one job, what are the reasons for job changes and length of time employed, as well as transferability of job skills?*
- *Has the borrower changed jobs in order to increase pay or benefits incrementally, or to gain greater job security? (These circumstances are viewed as positive underwriting offsets.)*
- *Are the borrowers employed full- or part-time? Seasonally?*
- *Do the borrowers have more than one 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 1003?*

## Documenting Income

To answer those questions 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 the documentation required for verification. For example, for a borrower who is currently employed, you may require a pay stub and a W-2 to fulfill documentation requirements, while for another who receives Social Security income, you may require a copy of an awards letter.

The table on the next page lists typical documentation required by many investors. Be sure to check your company/investor guidelines for specific documentation requirements.

Source of Income	Documentation Requirements
<b>Salaried/Hourly Income</b>	<ul style="list-style-type: none"> <li>• Most recent year-to-date (YTD) pay stub dated no earlier than 30 days from date of the application and including at least 30 days of YTD earnings</li> <li>• W-2s covering the prior year</li> <li>• Verbal verification of employment (VOE): <ul style="list-style-type: none"> <li>• Completed within 30 days of the closing date</li> <li>• Independently obtain phone numbers and, if possible, addresses for the borrowers' employers</li> <li>• Document the names and titles of the persons that confirmed the employment</li> <li>• Document the date(s) of the call and the source of the phone number</li> </ul> </li> <li>• Include the name and title of the processor/underwriter who performed the verification for the lender or written Verification of Employment (VOE), including year-to-date and prior year's earnings</li> </ul>
<b>Self-Employment Income</b>	<ul style="list-style-type: none"> <li>• Individual federal income tax returns for the most recent 2 years</li> <li>• Obtain most recent 2 years of federal business tax returns only if both of these conditions are present: <ul style="list-style-type: none"> <li>• The borrower owns 25% or more of the business</li> <li>• The business structure is a corporation, an "S" corporation or a partnership</li> </ul> </li> </ul>
<b>Commission Income</b>	<ul style="list-style-type: none"> <li>• Most recent YTD pay stub covering past 30 days</li> <li>• W-2s covering the most recent 2 tax years</li> <li>• Individual federal income tax returns for the most recent 2 years</li> </ul>
<b>Bonus Income</b>	<ul style="list-style-type: none"> <li>• Usually a 2-year average for qualification with a 2-year history of earning it from the same employer supported by paystub(s) for the most recent 30-day period with year-to-date earnings and W-2s for the prior 2 years</li> </ul>
<b>Income Per Job or Contract Basis</b>	<ul style="list-style-type: none"> <li>• Individual federal income tax returns for the most recent 2 years and, if applicable: <ul style="list-style-type: none"> <li>• Most recent YTD pay stub, provided by employer, to document the most recent 1 full month of earnings</li> <li>• W-2s covering the most recent 2 tax years (if provided by employer)</li> </ul> </li> </ul>
<b>Part-Time or Second Job</b>	<ul style="list-style-type: none"> <li>• Usually, a 2-year history demonstrating stable, recurring income. Income is averaged over 2 years. If history is less than 12 months, the income may be considered a positive underwriting offset.</li> <li>• Paystub(s) for the most recent 30-day period with year-to-date earnings and W-2s for the prior 2 years</li> </ul>
<b>Rental Income</b>	<ul style="list-style-type: none"> <li>• Individual federal income tax returns for the most recent 2 years. Note: If the property is not listed on Schedule E, provide a copy of the lease to verify rental income.</li> </ul>

Source of Income	Documentation Requirements
<b>Seasonal Income</b>	<ul style="list-style-type: none"> <li>• Seasonal workers may also receive unemployment compensation during their off-season months, usually verified on IRS form 1040 and averaged over the past 24 months</li> <li>• Paystub(s) for the most recent 30-day period with year-to-date earnings and W-2s for the prior year</li> </ul>
<b>Boarder Income</b>	<ul style="list-style-type: none"> <li>• 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.</li> </ul>
<b>Alimony, Child Support or Separate Maintenance</b>	<ul style="list-style-type: none"> <li>• Select pages from the applicable agreement supporting 3 years of continuance from closing date</li> <li>• Document proof of receipt for the most recent 3 months from one of the following: <ul style="list-style-type: none"> <li>• court payment record</li> <li>• cancelled checks</li> <li>• bank statements showing the deposits</li> </ul> </li> </ul>
<b>Other Sources of Income (Retirement, Social Security, etc.)</b>	<ul style="list-style-type: none"> <li>• Document the source of income, as applicable with: <ul style="list-style-type: none"> <li>• award letter</li> <li>• pension statement</li> <li>• 2 most recent bank statements</li> <li>• IRS 1099, etc., OR</li> </ul> </li> <li>• Provide complete individual federal income tax returns for the most recent 2 years</li> </ul>
<b>Auto Allowance/Expense Account Payments</b>	<ul style="list-style-type: none"> <li>• An auto allowance may be used as an offset to a borrower's monthly auto payment under these conditions: <ul style="list-style-type: none"> <li>• The allowance must have been received for a minimum of 2 years</li> <li>• Debt in excess of the monthly allowance or reimbursement should be carried as part of long-term debt</li> <li>• Any funds received in excess of monthly obligations will be considered income for qualifying purposes, as long as they are supported by the applicant's tax returns</li> </ul> </li> </ul>
<b>Employed by Property Seller, Real Estate Broker or a Closely Held Family Business</b>	<ul style="list-style-type: none"> <li>• YTD pay stub covering most recent 30 days, and</li> <li>• W-2s covering the most recent 2 tax years, and</li> <li>• Individual federal income tax returns for the most recent 2 years</li> </ul>
<b>IRS Form 4506</b>	<ul style="list-style-type: none"> <li>• Signed by the borrowers, covering the most recent 2 years' tax returns at application and/or closing. This form permits the lender to obtain tax return information from the IRS. The lender sends in the form.</li> </ul>
<b>Employment Gaps</b>	<ul style="list-style-type: none"> <li>• Document employment gaps of more than 60 days with a Letter of Explanation from the borrowers.</li> </ul>

## 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

In the not-too-distant past, this information was commonly provided on a document called a Verification of Employment. The VOE would have been procured from the borrowers' employers during the Processing stage of the Mortgage Cycle.

Today, it's more common for underwriters to 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 two-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 two 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 14, complete the Determining Gross Monthly Income exercise on pages 23-25 using 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 is.

The success of these businesses 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.

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



For help with self-employed borrowers, ask your MGIC Account Manager about MGIC's self-employed borrower training program, or go to [www.mgic.com/training](http://www.mgic.com/training) to sign up for an online seminar.

## 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 1003?**

- If not, a written explanation from the borrowers is needed to clarify any differences.

**Does the income documentation reflect stable income and employment?**

- If not, a written explanation from the borrowers may be needed to explain things such as a gap in employment or a significant increase or decrease in income.

**Does the information received satisfy the intent of the guideline? If not, what information can be provided that would satisfy the guideline?**

- Obtain additional information for further evaluation (e.g., additional documents to support the explanation).
- Obtain clarification for complete understanding.
- Obtain from the borrowers a written explanation for discrepancies or gaps in work history.

# 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. As their personal investment in their new home, the down payment 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 lower the LTV and risk involved. Conversely, the lower the investment, the higher the LTV and risk. (For more information about loan-to-value ratios, see *Putting the Pieces Together Book 3: Processing the Loan Application*.)

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

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

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

## Examining the Borrowers' Assets

Mortgage industry experience shows that the stronger the borrowers' capital profile is, the more likely they are to repay the mortgage. A capital profile includes the down payment in proportion to the sales price of the home (the loan-to-value ratio) and borrower assets that can be readily converted to cash.

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 asset verification is to establish whether the borrowers:

- have sufficient cash assets to close the loan
- demonstrate cash management skills and/or the ability to save

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

Check that there are no recent large, unexplained deposit increases, and new accounts are not opened with borrowed money. Total the most recent balances on the savings/investment statements to determine funds available to close.

Look for strong cash reserves remaining after a loan has closed as a 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 required to verify available funds. For example, a borrower whose home purchase is contingent upon selling an existing home would need to provide a HUD-1, while a borrower with savings would need to provide bank statements.

The table on the next page lists typical documentation required by many investors. Be sure to check your company/investor guidelines for specific documentation requirements.



Statements under review may be the original computer-generated forms the borrowers received in the mail, faxed copies from the provider or downloaded and printed from the Internet. If the statements are faxed or downloaded from the Internet, they must include the fax banner or Internet banner indicating the source of the information.



Complete the Verifying Assets exercise on pages 26-27 using account statements for reference.



Type of Asset	Documentation Requirements
Liquid Asset Statements (savings, CDs, CMA, retirement account, 401(k), IRA, etc.)	<p>Bank or brokerage statements for the 2 most recent months for each account. In general, use only 60% of value of vested amount for retirement 401(k) and IRAs. Important: If there is a large recent deposit, document the source of funds.</p> <p>If retirement fund assets are being used for the down payment or closing costs, provide the following:</p> <ul style="list-style-type: none"> <li>the most recent statement showing vested amount</li> <li>the conditions under which funds may be withdrawn or borrowed</li> <li>sufficient assets to cover funds needed and any penalties for withdrawal</li> <li>proof of liquidation</li> </ul>
Sale of Real Property	HUD-1 or equivalent closing/settlement statement
Gifts (must be from a relative of the borrower)	<p>Gift information provided by the borrowers on the application or in a gift letter must include:</p> <ul style="list-style-type: none"> <li>donor's name and relationship to the borrowers</li> <li>donor's mailing address and phone number</li> <li>address of the subject property</li> <li>amount of the gift</li> </ul> <p>Note: Donor signature is required if the above information is provided in a gift letter. If the gift funds are not reflected in the borrowers' account statement, provide proof of transfer from the donor to the borrowers.</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"> <li>proof of ownership of the asset being sold</li> <li>verification of the value of the asset being sold from an acceptable third-party source</li> <li>copy of the bill of sale and receipt of funds</li> </ul>
Borrowed Funds	<p>Borrowed funds must be secured by an asset that provides a return of equity (automobiles, real estate, etc.). Provide the following information:</p> <ul style="list-style-type: none"> <li>documented ownership of the asset and that the asset secures the loan</li> <li>verified terms and monthly payment, which need to be considered to calculate debt ratio</li> </ul>
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 cost and reserves if their value can be verified with either of the following:</p> <ul style="list-style-type: none"> <li>most recent monthly or quarterly statement</li> <li>stock certificate accompanied by evidence of current value</li> </ul>

## 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 1003?

If not, borrowers' written explanation is needed 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
- borrowers named as the account holders
- account number
- time period covered by the statement
- all deposits/withdrawals for depository accounts
- purchase and sales transactions for financial portfolio accounts
- ending account balance
- borrowers' name, Social Security number and address (Check that they are consistent with the 1003.)
- explanations for large deposits
- automatic loan payment withdrawals
- no evidence of alterations, white-out or deletions
- all pages of the document

If the statement is from the Internet, verify the URL (web address), account number and applicant name; or verify the account number and applicants' Social Security numbers.

### Does the information received satisfy intent of the guideline? If not, what information can be provided that would satisfy it?

- Obtain additional information for further evaluation (e.g., verify additional funds to meet required reserves)
- Obtain clarification for complete understanding
- Obtain written borrowers' 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, further verification of acceptable additional funds would be required. Examples of unacceptable sources include:

- proceeds from a personal or unsecured loan
- a gift that must be repaid
- cash advance on a revolving charge account or unsecured line of credit

## COLLATERAL RISK: CONFIRMING THE PROPERTY'S VALUE & MARKETABILITY

When a home purchase is financed with a mortgage, the home serves as collateral for the mortgage. As collateral, the home is pledged to the lender or the investor, whomever owns the mortgage. In the event that the borrowers fail to repay their mortgage, the collateral may be sold, with the proceeds used 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. As the underwriter, you decide whether the property meets your company/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 in mortgage lending
- list appraisal alternatives to the Uniform Residential Appraisal Report (URAR)
- identify key elements of a sales contract

## Establish Value & Marketability

Two documents are key in your evaluation. Information contained on the appraisal report and, if applicable, the sales contract will guide you toward an informed decision regarding whether the collateral would satisfy the unpaid mortgage debt.

### The Appraisal

Regardless of whether borrowers are purchasing a home or refinancing their existing mortgage, an appraisal will be ordered. Evaluating a residential appraisal is an important step in the loan process. The appraisal is your key to substantiate the value of the property. The appraisal evaluation takes 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 an inexact science. You need to use your experience, expertise and good judgment to evaluate and confirm that property value is supported.

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

As you review the appraisal, 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. This report is used for single-family residences and gives a comprehensive look at the interior and exterior of the subject property. In addition, it provides a detailed sales comparison approach, which compares 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 the UAD requirements in order for the loan to be saleable to Fannie Mae or Freddie Mac.

For a sample Appraisal Report and highlights of key information to look for, see Appendix D on pages 28-33.

## 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	72	1025
Appraisal Update and/or Completion Report	442	1004D
Market Conditions Addendum to the Appraisal Report	71	1004MC
Loan Prospector Condition and Marketability Report	2070	N/A
Two-to-Four-Unit Residential Field Review Report	1072	2000A
One-Unit Residential Appraisal Field Review Report	1032	2000



For more information on evaluating appraisals, contact your MGIC Account Manager regarding MGIC's appraisal training program or go to [www.mgic.com/training](http://www.mgic.com/training) to sign up for an online seminar.

## The Sales Contract

Sales contracts are required only if the mortgage is for a home being purchased. Sales contracts will vary from one part of the country to another, 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, that the purpose of the sales contract is to detail the conditions under which the sale of the property will take place.

In order to best serve your borrowers, you must be familiar with the key information contained in the contract, as this information is needed 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 loan amount requested influence which loan program is used.

To see a sample Sales Contract and highlights of key information to look for, see Appendix E on pages 34-35.

## 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 application?

Key information like names, address and dollar amounts, should be consistent with the information reported on the 1003, as this information will eventually appear on the final loan documents. Inconsistencies should be matched against other documents in the file to determine which information is correct; if unsure, contact the borrowers to clarify.

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

The sales contract is not a legal, binding document without signatures or certification by all involved parties — buyers, sellers and real estate agents.

#### Does the contract include all referenced addenda?

Review the sales contract to make sure that all referenced addenda are included and have the necessary signatures. The signatures make it a binding agreement and the addenda may have critical information needed to successfully process the loan (e.g., change in the closing date).

#### Are any contingencies listed?

Review the contract for any contingencies, as they may affect the loan process or loan approval conditions. Note: If a contingency is the sale of the current home, make certain the information is included on the 1003.

#### Does the contract reference the inclusion of chattel property?

Review the sales contract or escrow instructions for any chattel property (e.g., furniture, lawn mower) that may have been included in the sales price. The value of the chattel property will need to be deducted from the appraised value.

#### 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 & LTV	Typical Seller Contribution Limits
Principal Residence	
≥ 90.01%	3%
≤ 90%	6%

#### Does the information received satisfy the intent of the guideline? If not, what information can be provided that would satisfy it?

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

## THE FOUR 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 dramatically increases the likelihood of default.

Perspective gained from evaluating The Four Cs gives us insight to loan quality. Underwriting for quality is an acquired art — not a cut-and-dried science. While there are general principles that apply, every loan file represents a unique situation. The more you practice this fine art, the more comfortable, confident and capable you'll become putting the pieces together.

## APPENDICES



# Appendix A

## Exercise 1: Navigating Through the Credit Report

Answer the questions below regarding the borrowers' credit report. Refer to the credit report on pages 4-10. Answers are provided in Appendix F on page 36.

1. Identify the three 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 the representative or indicator score for each borrower?

7. What is the representative or indicator 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 NOXXXXX-2030			PERIOD ENDING 6/15/12			DEPOSIT DATE 6/15/12		
PAYMENTS	RATE	HOURS	CURR AMT	YTD AMT	DEDUCTIONS	CURR AMT	YTD AMT	BENEFITS	CURR AMT	YTD AMT	DEPOSIT NO 930712
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	173.71	1910.81	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	RATE	HOURS	CURR AMT	YTD AMT	DEDUCTIONS	CURR AMT	YTD AMT	BENEFITS	CURR AMT	YTD AMT	
					OEA DUES	31.27	343.97				
					XY TAX % GROSS						
					XY STATE TAX	93.64	1030.04				
GROSS PAY - PRE-FED-TAX = FED TX GRS - FED TAX - STA TAX - SOC SEC - OTH DED = NET PAY LOC MAR FED STA											
CURRENT	1854.16		317.10	1537.06	173.71	93.64	122.91	50.00	1096.80	HIG M O/M O/M	
YEAR-TO-DATE	20395.76		3488.10	16907.66	1910.81	1030.04	1352.01	550.00	12064.80		

Control number		OMB No. 1545-0008	
b. Employer identification number 66-6003743		1. Wages, tips, other compensation 38,204.04	2. Federal income tax withheld 3,783.00
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 2,515.20
		5. Medicare wages and tips 39,300.04	6. Medicare tax withheld 569.85
		7. Social security tips	8. Allocated tips
d. Employee's social security number XXX-XX-2030		9. Advance EIC payment	10. Dependent care benefits
e. Employee's name, address, and ZIP code Peter Simon 12 Oakwood Lane Pleasant Valley, XY 99999		11. Nonqualified plans See instrs. for box 13 D 1,096.00 401k	12. Benefits included in box 1
		13. See instrs. for box 13 D 1,096.00 401k	14. Other
		15. Statutory employee <input type="checkbox"/>	16. Decedent <input type="checkbox"/>
		17. Pension plan <input type="checkbox"/>	18. Legal rep. <input type="checkbox"/>
		19. Deceased <input type="checkbox"/>	20. Deceased compensation <input type="checkbox"/>
16. State	Employer's state ID no. XY 02345	17. State wages, tips, etc. 38,204.04	18. State income tax 2,458.04
Department of the Treasury — Internal Revenue Service			

**W-2 Wage and Tax Statement 2010**  
Copy B To Be Filed With Employee's FEDERAL Tax Return

This information is being furnished to the Internal Revenue Service.

Control number		OMB No. 1545-0008	
b. Employer identification number 66-6003743		1. Wages, tips, other compensation 41,676.99	2. Federal income tax withheld 5,254.10
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 2,558.37
		5. Medicare wages and tips 42,876.99	6. Medicare tax withheld 621.72
		7. Social security tips	8. Allocated tips
d. Employee's social security number XXX-XX-2030		9. Advance EIC payment	10. Dependent care benefits
e. Employee's first name and last name Peter Simon 12 Oakwood Lane Pleasant Valley, XY 99999		11. Nonqualified plans	12. Benefits included in box 1
		13. See instrs. for box 13 D 1,096.00 401k	14. Other
		15. Statutory employee <input type="checkbox"/>	16. Decedent <input type="checkbox"/>
		17. Pension plan <input type="checkbox"/>	18. Legal rep. <input type="checkbox"/>
		19. Deceased <input type="checkbox"/>	20. Deceased compensation <input type="checkbox"/>
16. State	Employer's state ID number XY 02345	17. State wages, tips, etc. 41,676.99	18. State income tax 2,499.67
Department of the Treasury — Internal Revenue Service			

**W-2 Wage and Tax Statement 2011**  
Copy B To Be Filed With Employee's FEDERAL Tax Return.  
This information is being furnished to the Internal Revenue Service.

Determine the borrowers' gross monthly income using the information provided on pages 14-15 and the pay stubs and W-2 statements on the following pages. Answers are provided in Appendix F on page 36.

### 1. What type of pay period is reflected on the following pay stub:

- Franklin Elementary School – Peter Simon
  - Weekly
  - Bi-Weekly
  - Semi-Monthly
  - Monthly
- Web Vision Inc. – Elizabeth Simon (see pay stub on page 25)
  - Weekly
  - Bi-Weekly
  - Semi-Monthly
  - Monthly

(continued)



a Control number		OMB No. 1545-0008			
b Employer's identification number 12-3456789		1 Wages, tips, other compensation 52,440.70		2 Federal income tax withheld 5,398.64	
c Employer's name, address, and ZIP code Web Vision Inc. 314 Forest Avenue Pleasant Valley, XY 99999		3 Social security wages 55,200.60		4 Social security tax withheld 3,422.44	
		5 Medicare wages and tips 55,200.60		6 Medicare tax withheld 800.41	
		7 Social security tips		8 Allocated tips	
d Employer's social security number XXX-XX-9652		9 Advance EIC payment		10 Dependent care benefits	
e Employer's name, address, and ZIP code Elizabeth Simon 12 Oakwood Lane Pleasant Valley, XY 99999		11 Nonqualified plans		12 Benefits included in box 1	
		13 See instructions for box 13 D 2,759.90 401k		14 Other	
		15 Statutory employee <input type="checkbox"/> Deceased <input type="checkbox"/> Pension plan <input checked="" type="checkbox"/> Legal <input type="checkbox"/> Defined compensation <input type="checkbox"/>			
16 State Employer's state I.D. no. XY	17 State wages, tips, etc. 52,440.70	18 State income tax 3,178.50	19 Locality name	20 Local wages, tips, etc.	21 Local income tax

Form

W-2 Wage and Tax Statement

2010

Copy B To Be Filled With Employer's FEDERAL Tax Return

This information is being furnished to the Internal Revenue Service.

Department of the Treasury — Internal Revenue Service

7. Are there any loan deductions reflected on the pay stubs?

- Franklin Elementary School – Peter Simon ☒ yes ☐ no
- Web Vision Inc. – Elizabeth Simon ☒ yes ☐ no

If yes, does the deduction need to be included in the borrowers' total debt ratio? ■ yes ■ no

# Appendix C

## Exercise 3: Verifying Assets

**TCU**  
Teachers Credit Union

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

PETER AND ELIZABETH SIMON  
12 OAKWOOD LANE  
PLEASANT VALLEY XY 99999

**STATEMENT OF ACCOUNT** Page: 01

Prepared For: **Peter & Elizabeth Simon**  
 Account Number: **06083**  
 Social Security Number: **XXX-XX-2030**  
 Statement Period: **04/01/12 through 04/30/12**  
 Branch: **2**

DATE	CK/MEMO #	TRANSACTION DESCRIPTION	AMOUNT	BALANCE
<b>SHARE</b>				
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	-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				
<b>SHARE DRAFT</b>				
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	187.71	
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	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	04/28	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 16-17 to answer the questions below. Answers are provided in Appendix F on page 37.

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

PETER AND ELIZABETH SIMON  
12 OAKWOOD LANE  
PLEASANT VALLEY XY 99999

# STATEMENT OF ACCOUNT

Page: 01

Prepared For: Peter & Elizabeth Simon  
Account Number: 06083  
Social Security Number: XXX-XX-2030  
Statement Period: 05/01/12 through 05/31/12  
Branch: 2

DATE	CK/MEMO #	TRANSACTION DESCRIPTION	AMOUNT	BALANCE				
SHARE								
ACCOUNT NO. 06083- 00								
05/01		PREVIOUS BALANCE		8,959.90				
05/07	233815	WITHDRAWAL BY TRANSFER TRANSFER TO	-200.00	6,759.90				
05/14	244104	WITHDRAWAL BY TRANSFER TRANSFER TO	-350.00	6,409.90				
05/17	235021	WITHDRAWAL BY TRANSFER TRANSFER TO	-185.00	6,224.90				
05/28	245846	WITHDRAWAL BY TRANSFER TRANSFER TO	-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								
ANNUAL PERCENTAGE YIELD EARNED FROM 02/28/02 THROUGH 05/28/02 IS 3.00% BASED UPON AN AVERAGE BALANCE OF 4957.56 AND TOTAL DIVIDENDS EARNED OF 37.11								
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	-24.48	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

## The Appraisal Report

Uniform Residential Appraisal Report				File # MGIC_202	
The purpose of this summary appraisal report is to provide the lender/client with an accurate, and adequately supported, opinion of the market of the subject property.					
Property Address 126 Lake View Lane		City Pleasant Valley		State XY	Zip 99999
Borrower Mr. and Mrs. Simon		Owner of Public Record Mr. and Mrs. Seller		County Valley	
Legal Description Lot 4, Block B					
Assessor's Parcel# 98-765-432-000		Tax Year 2012		R.E. Taxes \$ 1,750	
Neighborhood Name River Bend		Map Reference Anytown		Census Tract 137.40	
Occupant	<input checked="" type="checkbox"/> Owner <input type="checkbox"/> Tenant <input type="checkbox"/> Vacant	Special Assessment \$	<input type="checkbox"/> PUD	HOA \$	<input type="checkbox"/> per year <input type="checkbox"/> per month
Property Rights Appraised <input checked="" type="checkbox"/> Fee Simple <input type="checkbox"/> Leasehold <input type="checkbox"/> Other (describe)					
Assignment Type <input checked="" type="checkbox"/> Purchase Transaction <input type="checkbox"/> Refinance Transaction <input type="checkbox"/> Other (describe)					
Lender/Client ABC Mortgage Company Address 1000 Any Street, Pleasant Valley XY 99999					
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? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No					
Report data source(s) used, offering price(s), and date(s). DOM 76; MLS and Contract. Sold for \$200,000 as of 5/25/12. Reference #7664316 per MLS. Offered for sale for \$225,000 on 3/4/12. Price lowered to \$200,000 on 4/30/12.					
1 I <input checked="" type="checkbox"/> did <input type="checkbox"/> 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 \$ 200,000 Date of Contract 05/25/2012 Is the property seller the owner of public record? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No Data Source(s)					
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? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> 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 checked="" 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 80 %	
Built-Up	<input checked="" type="checkbox"/> Over 75% <input 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 %	
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	150 Low 16 Multi-Family %	
Neighborhood Boundaries Highland Rd on North; Washington River on South and East;				250 High 35 Commercial %	
Sheridan Rd. on West				200 Pred. 25 Other 20 %	
Neighborhood Description The subject property is in a residential neighborhood of homes similar in construction, condition, design and amenities. 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 attached Plat map Area 36,388 sqft.		Shape Irregular		View N; Res;	
Specific Zoning Classification R-1		Zoning Description Single-Family/Residential			
Zoning Compliance <input checked="" type="checkbox"/> Legal <input type="checkbox"/> Legal Nonconforming (Grandfathered Use) <input type="checkbox"/> No Zoning <input type="checkbox"/> Illegal (describe)					
Is the highest and best use of the subject property as improved (or as proposed per plans and specifications) the present use? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No If No, describe					
Utilities	Public Other (describe)	Public Other (describe)	Off-site Improvements - Type	Public	Private
Electricity	<input checked="" type="checkbox"/> <input type="checkbox"/>	Water	Street Asphalt	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Gas	<input checked="" type="checkbox"/> <input type="checkbox"/>	Sanitary Sewer	Alley	<input type="checkbox"/>	<input type="checkbox"/>
FEMA Special Flood Hazard Area <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No FEMA Flood Zone		FEMA Map # 372C246E		FEMA Map Date 4-18-03	
Are the utilities and off-site improvements typical for the market area? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No If No, describe					
Are there any adverse site conditions or external factors (encroachments, environmental conditions, land uses, etc.)? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No If Yes, describe					
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 checked="" type="checkbox"/> Concrete Slab <input type="checkbox"/> Crawl Space	Foundation Walls	Poured Concrete/Avg.		Floors Carpet/HW/Avg.
# of Stories 2	<input type="checkbox"/> Full Basement <input type="checkbox"/> Partial Basement	Exterior Walls	Siding/Avg.		Walls DW/Avg.
Type <input checked="" type="checkbox"/> Det. <input type="checkbox"/> Att. <input type="checkbox"/> S-Det./End Unit	Basement Area sq. ft.	Roof Surface	Comp Shingle/Avg.		Trim/Finish Oak/Avg.
<input checked="" type="checkbox"/> Existing <input type="checkbox"/> Proposed <input type="checkbox"/> Under Const.	Basement Finish 0%	Gutters & Downspouts	Painted Metal/Avg.		Bath Floor CT/Avg.
Design (Style) Colonial	<input type="checkbox"/> Outside Entry/Exit <input type="checkbox"/> Sump Pump	Window Type	Double Hung/Avg.		Bath Wainscot CT/Avg.
Year Built 1986	Evidence of <input type="checkbox"/> Infestation	Storm Sash/Insulated	Combination/Avg.		Car Storage <input checked="" type="checkbox"/> None
Effective Age (Yrs) 20	<input type="checkbox"/> Dampness <input type="checkbox"/> Settlement	Screens	Yes		<input checked="" type="checkbox"/> Driveway # of Cars 3
Attic <input type="checkbox"/> None	Heating <input checked="" type="checkbox"/> FWA <input type="checkbox"/> HWBB <input type="checkbox"/> Radiant	Amenities	<input type="checkbox"/> Woodstove(s) #		Driveway Surface Asphalt
<input type="checkbox"/> Drop Stair <input checked="" type="checkbox"/> Stairs	<input type="checkbox"/> Other Fuel Gas	<input checked="" type="checkbox"/> Fireplace(s) # 1	<input type="checkbox"/> Fence		<input checked="" type="checkbox"/> Garage # of Cars 2
<input checked="" type="checkbox"/> Floor <input type="checkbox"/> Scuttle	Cooling <input checked="" type="checkbox"/> Central Air Conditioning	<input type="checkbox"/> Patio/Deck	<input type="checkbox"/> Porch		<input type="checkbox"/> Carport # of Cars
<input type="checkbox"/> Finished <input type="checkbox"/> Heated	<input type="checkbox"/> Individual <input type="checkbox"/> Other	<input type="checkbox"/> Pool	<input type="checkbox"/> Other		<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 checked="" type="checkbox"/> Microwave <input checked="" type="checkbox"/> Washer/Dryer <input type="checkbox"/> Other (describe)					
Finished area above grade contains: 6 Rooms 3 Bedrooms 2.1 Bath(s) 1,625 Square Feet of Gross Living Area Above Grade					
Additional features (special energy efficient items, etc.) Fireplace in living room, rear wood deck, two second floor bedrooms with balconies, full shed, dormer off the back of the walk-up attic for expansion.					
Describe the condition of the property (including needed repairs, deterioration, renovations, remodeling, etc.) C3; Kitchen-updated-one to five years ago; Bathrooms-not updated; Overall, the kitchen remodel was of higher quality. The property has a functional floor plan. The subject is well maintained with no major functional or external inadequacies noted.					
Are there any physical deficiencies or adverse conditions that affect the livability, soundness, or structural integrity of the property? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No If Yes, describe					
Does the property generally conform to the neighborhood (functional utility, style, condition, use, construction, etc.)? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No If No, describe					
Typical home for area in regard to area, style, condition, amenities.					

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

On the following pages, we've laid out a sample appraisal report and highlighted information you will need to examine in each of its sections.

- Subject** – provides property address, legal description, census tract
- Contract** – addresses the appraiser's view of the sales contract, noting anything in the sale that is not typical of the market or that would affect the negotiated price
- Neighborhood** – includes property location, demand/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 style of home, type of foundation and includes an exterior and interior description

6

Uniform Residential Appraisal Report										File # MGIC_202	
There are 27 comparable properties currently offered for sale in the subject neighborhood ranging in price from \$ 150,000 to \$ 230,000											
There are 20 comparable sales in the subject neighborhood within the past twelve months ranging in sale price from \$ 165,000 to \$ 220,000											
FEATURE		SUBJECT		COMPARABLE SALE #1		COMPARABLE SALE #2		COMPARABLE SALE #3			
Address		126 Lake View Lane Pleasant Valley, XY 99999		10 Brook Drive Pleasant Valley, XY 99999		243 Apple Lane Pleasant Valley, XY 99999		814 Lafayette Place Pleasant Valley, XY 99999			
Proximity to Subject		1 Mile S		.75 Miles SE		.75 Miles SE		.5 Miles SE			
Sale Price		\$ 200,000		\$ 206,000		\$ 200,000		\$ 206,000			
Sale Price/Gross Liv. Area		\$ 123.08 sq. ft.		\$ 126.77 sq. ft.		\$ 125.00 sq. ft.		\$ 99.13 sq. ft.			
Data Source(s)		MLS#723369; DOM 80		MLS#724740; DOM 73		MLS#755130; DOM 102					
Verification Source(s)		Assessors/Rcrds		Assessors/Rcrds		Assessors/Rcrds					
VALUE ADJUSTMENTS		DESCRIPTION		+(-)\$ Adjustment		DESCRIPTION		+(-)\$ Adjustment		DESCRIPTION	
Sale or Financing		ArmLth				ArmLth				ArmLth	
Concessions		Conventional				Conventional				Conventional	
Date of Sale/Time		s06/12; c04/12				s03/12; c01/12				s04/12; c02/12	
Location		N; Res;				N; Res;				N; Res;	
Leasehold/Fee Simple		Fee Simple				Fee Simple				Fee Simple	
Site		36,388 sf		1.9 ac		-13,000		28,712 sf		43,124 sf	
View		N; Res;								N; Res;	
Design (Style)		Colonial				Colonial				Colonial	
Quality of Construction		Q3		3,000		Q3				Q4	
Actual Age		26		5,000		24				23	
Condition		C3				C3				C3	
Above Grade		Total		Bdms		Baths		Total		Bdms	
Room Count		6		3		2.1		6		3	
Gross Living Area		1,625 sq. ft.		1,625 sq. ft.		1,600 sq. ft.		1,000		2,078 sq. ft.	
Basement & Finished Rooms Below Grade		None				None				None	
Functional Utility		Average				Average				Average	
Heating/Cooling		FWA/CA				FWA/CA				FWA/CA	
Energy Efficient Items		Average				Average				Average	
Garage/Carport		2 Car Att				2 Car Att				2 Car Att	
Porch/Patio/Deck		Deck				Deck				Deck	
		1 FP				1 FP				1 FP	
Net Adjustment (Total)		+ -		-5,000		+ -		1,000		+ -	
Adjusted Sale Price of Comparables		Net Adj. 2.43%		10.19%		Net Adj. 0.50%		0.50%		Net Adj. 2.91%	
		Gross Adj. 10.19%		\$ 201,000		Gross Adj. 0.50%		\$ 201,000		Gross Adj. 5.83%	
I <input checked="" type="checkbox"/> did <input type="checkbox"/> did not research the sale or transfer history of the subject property and comparable sales. If not, explain											
My research <input checked="" type="checkbox"/> did <input type="checkbox"/> 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											
My research <input checked="" type="checkbox"/> did <input type="checkbox"/> 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											
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 #1		COMPARABLE SALE #2		COMPARABLE SALE #3			
Date of Prior Sale/Transfer		06/01/2009		04/30/2010							
Price of Prior Sale/Transfer		\$190,000		\$202,000							
Data Source(s)		MLS, Tax Records		MLS, Tax Records		MLS, Tax Records		MLS, Tax Records			
Effective Date of Data source(s)											
Analysis of prior sale or transfer history of the subject property and comparable sales											
The subject property last transferred 3 years ago at \$190,000. Per the listing Realtor, it was an arms-length transaction after the property was on the market for 45 days.											
Summary of Sales Comparison Approach All of the comparable sales were similar to the subject property. Comparable sale 2 required the fewest number of adjustments. Size adjustments were made at \$20 per square foot.											
Indicated Value by Sales Comparison Approach \$ 201,000											
Indicated Value by: Sales Comparison Approach \$ 201,000 Cost Approach (if developed) \$ 203,185 Income Approach (if developed) \$ NA											
Most weight was given to the Sales Comparison Approach. The Income approach is not applicable in this instance due to lack of data. Single family homes are not typically rented in this market.											
This appraisal is made <input checked="" type="checkbox"/> "as is", <input type="checkbox"/> subject to completion per plans and specifications on the basis of a hypothetical condition that the improvements have been completed, or <input type="checkbox"/> subject to the following repairs or alterations on the basis of a hypothetical condition that the repairs or alterations have been completed, or <input type="checkbox"/> subject to the following required inspection based on the extraordinary assumption that the condition or deficiency does not require alteration or repair: No condition noted. The appraisal is made "as is".											
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 \$ 201,000, as of 06/04/2012, which is the date of inspection and the effective date of this appraisal.											

## 6 Sales Comparison

Approach – provides a minimum of three comparable closed sales required to determine market value

## 7 Reconciliation – provides certification of appraisal and final value

# Appendix D

## The Appraisal Report (continued)

Uniform Residential Appraisal Report		File # MGIC_202
8		
9		
10		
11		

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)			
ESTIMATED	<input checked="" type="checkbox"/> REPRODUCTION OR <input type="checkbox"/> REPLACEMENT COST NEW	OPINION OF SITE VALUE	= \$ 80,000
Source of cost data	Marshall & Swift	Dwelling	1,625 Sq. Ft. @ \$ 80 = \$ 130,000
Quality rating from cost service	Effective date of cost data	Sq. Ft. @ \$	= \$
Comments on Cost Approach (gross living area calculations, depreciation, etc.)	Deck	400 Sq. Ft. @ \$ 12	= \$ 4,800
Also consulted with local builders on cost data.	Garage/Carport	641 Sq. Ft. @ \$ 23	= \$ 14,743
	Total Estimate of Cost-New		= \$ 149,543
	Less 65 Physical Functional External		
	Depreciation \$46,358		= \$ (46,358)
	Depreciated Cost of Improvements		= \$ 103,185
	"As-is" Value of Site Improvements		= \$ 20,000
Estimated Remaining Economic Life (HUD and VA only)	Years	Indicated Value By Cost Approach	= \$ 203,185

INCOME APPROACH TO VALUE (not required by Fannie Mae)	
Estimated Monthly Market Rent \$	X Gross Rent Multiplier = \$ Indicated Value by Income Approach
Summary of Income Approach (including support for market rent and GRM)	

PROJECT INFORMATION FOR PUDs (if applicable)	
Is the developer/builder in control of the Homeowners' Association (HOA)? <input type="checkbox"/> Yes <input type="checkbox"/> No	Unit Type(s) <input type="checkbox"/> Detached <input type="checkbox"/> 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 rented	Total number of units for sale
Was the project created by the conversion of an existing building(s) into a PUD? <input type="checkbox"/> Yes <input type="checkbox"/> No	Data source(s)
Does the project contain any multi-dwelling units? <input type="checkbox"/> Yes <input type="checkbox"/> No	If Yes, date of conversion
Are the units, common elements, and recreation facilities complete? <input type="checkbox"/> Yes <input type="checkbox"/> No	Data Source(s)
	If No, describe the status of completion.
Are the common elements leased to or by the Homeowners' Association? <input type="checkbox"/> Yes <input type="checkbox"/> No	If Yes, describe the rental terms and options.
Describe common elements and recreational facilities	

- 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 appraiser's estimated cost of site, reproduction cost and depreciation used to determine final value if the home were newly constructed
- 10 **Income Approach** – determines value of property using estimated monthly rent
- 11 **PUD Information** – provides project information when the subject is part of a Planned Unit Development

12

This report form is designed to report an appraisal of a one-unit property or a one-unit property with an accessory unit; including a unit in a planned unit development (PUD). This report form is not designed to report an appraisal of a manufactured home or a unit in a condominium or cooperative project.

This appraisal report is subject to the following scope of work, intended use, intended user, definition of market value, statement of assumptions and limiting conditions, and certifications. Modifications, additions, or deletions to the intended use, intended user, definition of market value, or assumptions and limiting conditions are not permitted. The appraiser may expand the scope of work to include any additional research or analysis necessary based on the complexity of this appraisal assignment. Modifications or deletions to the certifications are also not permitted. However, additional certifications that do not constitute material alterations to this appraisal report, such as those required by law or those related to the appraiser's continuing education or membership in an appraisal organization, are permitted.

**SCOPE OF WORK:** The scope of work for this appraisal is defined by the complexity of this appraisal assignment and the reporting requirements of this appraisal report form, including the following definition of market value, statement of assumptions and limiting conditions, and certifications. The appraiser must, at a minimum: (1) perform a complete visual inspection of the interior and exterior areas of the subject property, (2) inspect the neighborhood, (3) inspect each of the comparable sales from at least the street, (4) research, verify, and analyze data from reliable public and/or private sources, and (5) report his or her analysis, opinions, and conclusions in this appraisal report.

**INTENDED USE:** The intended use of this appraisal report is for the lender/client to evaluate the property that is the subject of this appraisal for a mortgage finance transaction.

**INTENDED USER:** The intended user of this appraisal report is the lender/client.

**DEFINITION OF MARKET VALUE:** The most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller, each acting prudently, knowledgeably and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby: (1) buyer and seller are typically motivated; (2) both parties are well informed or well advised, and each acting in what he or she considers his or her own best interest; (3) a reasonable time is allowed for exposure in the open market; (4) payment is made in terms of cash in U. S. dollars or in terms of financial arrangements comparable thereto; and (5) the price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions\* granted by anyone associated with the sale.

\*Adjustments to the comparables must be made for special or creative financing or sales concessions. No adjustments are necessary for those costs which are normally paid by sellers as a result of tradition or law in a market area; these costs are readily identifiable since the seller pays these costs in virtually all sales transactions. Special or creative financing adjustments can be made to the comparable property by comparisons to financing terms offered by a third party institutional lender that is not already involved in the property or transaction. Any adjustment should not be calculated on a mechanical dollar for dollar cost of the financing or concession but the dollar amount of any adjustment should approximate the market's reaction to the financing or concessions based on the appraiser's judgment.

**STATEMENT OF ASSUMPTIONS AND LIMITING CONDITIONS:** The appraiser's certification in this report is subject to the following assumptions and limiting conditions:

1. The appraiser will not be responsible for matters of a legal nature that affect either the property being appraised or the title to it, except for information that he or she became aware of during the research involved in performing this appraisal. The appraiser assumes that the title is good and marketable and will not render any opinions about the title.
2. The appraiser has provided a sketch in this appraisal report to show the approximate dimensions of the improvements. The sketch is included only to assist the reader in visualizing the property and understanding the appraiser's determination of its size.
3. The appraiser has examined the available flood maps that are provided by the Federal Emergency Management Agency (or other data sources) and has noted in this appraisal report whether any portion of the subject site is located in an identified Special Flood Hazard Area. Because the appraiser is not a surveyor, he or she makes no guarantees, express or implied, regarding this determination.
4. The appraiser will not give testimony or appear in court because he or she made an appraisal of the property in question, unless specific arrangements to do so have been made Beforehand, or as otherwise required by law.
5. The appraiser has noted in this appraisal report any adverse conditions (such as needed repairs, deterioration, the presence of hazardous wastes, toxic substances, etc.) observed during the inspection of the subject property or that he or she became aware of during the research involved in performing this appraisal. Unless otherwise stated in this appraisal report, the appraiser has no knowledge of any hidden or unapparent physical deficiencies or adverse conditions of the property (such as, but not limited to, needed repairs, deterioration, the presence of hazardous wastes, toxic substances, adverse environmental conditions, etc.) that would make the property less valuable, and has assumed that there are no such conditions and makes no guarantees or warranties, express or implied. The appraiser will not be responsible for any such conditions that do exist or for any engineering or testing that might be required to discover whether such conditions exist. Because the appraiser is not an expert in the field of environmental hazards, this appraisal report must not be considered as an environmental assessment of the property.
6. The appraiser has based his or her appraisal report and valuation conclusion for an appraisal that is subject to satisfactory completion, repairs, or alterations on the assumption that the completion, repairs, or alterations of the subject property will be performed in a professional manner.

- 12 **Terms and conditions –**  
defines the purpose, scope,  
intent and conditions of the  
appraisal document

# Appendix D

## The Appraisal Report (continued)

Uniform Residential Appraisal Report		File # MGIC_202
13	<p><b>APPRAISER'S CERTIFICATION:</b> The Appraiser certifies and agrees that:</p> <ol style="list-style-type: none"> <li>1. I have, at a minimum, developed and reported this appraisal in accordance with the scope of work requirements stated in this appraisal report.</li> <li>2. I performed a complete visual inspection of the interior and exterior areas of the subject property. I reported the condition of the improvements in factual, specific terms. I identified and reported the physical deficiencies that could affect the livability, soundness, or structural integrity of the property.</li> <li>3. I performed this appraisal in accordance with the requirements of 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.</li> <li>4. I developed my opinion of the market value of the real property that is the subject of this report based on the sales comparison approach to value. I have adequate comparable market data to develop a reliable sales comparison approach for this appraisal assignment. I further certify that I considered the cost and income approaches to value but did not develop them, unless otherwise indicated in this report.</li> <li>5. I researched, verified, analyzed, and reported on any current agreement for sale for the subject property, any offering for sale of the subject property in the twelve months prior to the effective date of this appraisal, and the prior sales of the subject property for a minimum of three years prior to the effective date of this appraisal, unless otherwise indicated in this report.</li> <li>6. I researched, verified, analyzed, and reported on the prior sales of the comparable sales for a minimum of one year prior to the date of sale of the comparable sale, unless otherwise indicated in this report.</li> <li>7. I selected and used comparable sales that are locationally, physically, and functionally the most similar to the subject property.</li> <li>8. I have not used comparable sales that were the result of combining a land sale with the contract purchase price of a home that has been built or will be built on the land.</li> <li>9. I have reported adjustments to the comparable sales that reflect the market's reaction to the differences between the subject property and the comparable sales.</li> <li>10. I verified, from a disinterested source, all information in this report that was provided by parties who have a financial interest in the sale or financing of the subject property.</li> <li>11. I have knowledge and experience in appraising this type of property in this market area.</li> <li>12. I am aware of, and have access to, the necessary and appropriate public and private data sources, such as multiple listing services, tax assessment records, public land records and other such data sources for the area in which the property is located.</li> <li>13. I obtained the information, estimates, and opinions furnished by other parties and expressed in this appraisal report from reliable sources that I believe to be true and correct.</li> <li>14. I have taken into consideration the factors that have an impact on value with respect to the subject neighborhood, subject property, and the proximity of the subject property to adverse influences in the development of my opinion of market value. I have noted in this appraisal report any adverse conditions (such as, but not limited to, needed repairs, deterioration, the presence of hazardous wastes, toxic substances, adverse environmental conditions, etc.) observed during the inspection of the subject property or that I became aware of during the research involved in performing this appraisal. I have considered these adverse conditions in my analysis of the property value, and have reported on the effect of the conditions on the value and marketability of the subject property.</li> <li>15. I have not knowingly withheld any significant information from this appraisal report and, to the best of my knowledge, all statements and information in this appraisal report are true and correct.</li> <li>16. I stated in this appraisal report my own personal, unbiased, and professional analysis, opinions, and conclusions, which are subject only to the assumptions and limiting conditions in this appraisal report.</li> <li>17. I have no present or prospective interest in the property that is the subject of this report, and I have no present or prospective personal interest or bias with respect to the participants in the transaction. I did not base, either partially or completely, my analysis and/or opinion of market value in this appraisal report on the race, color, religion, sex, age, marital status, handicap, familial status, or national origin of either the prospective owners or occupants of the subject property or of the present owners or occupants of the properties in the vicinity of the subject property or on any other basis prohibited by law.</li> <li>18. My employment and/or compensation for performing this appraisal or any future or anticipated appraisals was not conditioned on any agreement or understanding, written or otherwise, that I would report (or present analysis supporting) a predetermined specific value, a predetermined minimum value, a range or direction in value, a value that favors the cause of any party, or the attainment of a specific result or occurrence of a specific subsequent event (such as approval of a pending mortgage loan application).</li> <li>19. I personally prepared all conclusions and opinions about the real estate that were set forth in this appraisal report. If I relied on significant real property appraisal assistance from any individual or individuals in the performance of this appraisal or the preparation of this appraisal report, I have named such individual(s) and disclosed the specific tasks performed in this appraisal report. I certify that any individual so named is qualified to perform the tasks. I have not authorized anyone to make a change to any item in this appraisal report; therefore, any change made to this appraisal is unauthorized and I will take no responsibility for it.</li> <li>20. I identified the lender/client in this appraisal report who is the individual, organization, or agent for the organization that ordered and will receive this appraisal report.</li> </ol>	
<p>Freddie Mac Form 70 March 2005      UAD Version 9/2011      Page 5 of 6      Fannie Mae Form 1004 March 2005</p>		

13 **Appraiser's Certification –**  
states the established  
criteria under which the  
appraiser developed the  
report



# Uniform Residential Appraisal Report

File # MGIC\_202

21. The lender/client may disclose or distribute this appraisal report to: the borrower; another lender at the request of the borrower; the mortgagee or its successors and assigns; mortgage insurers; government sponsored enterprises; other secondary market participants; data collection or reporting services; professional appraisal organizations; any department, agency, or instrumentality of the United States; and any state, the District of Columbia, or other jurisdictions; without having to obtain the appraiser's or supervisory appraiser's (if applicable) consent. Such consent must be obtained before this appraisal report may be disclosed or distributed to any other party (including, but not limited to, the public through advertising, public relations, news, sales, or other media).
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.

## SUPERVISORY APPRAISER'S CERTIFICATION: The Supervisory Appraiser certifies and agrees that:

1. 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.
2. 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.
3. 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.
4. 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.
5. 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.

14

## APPRAISER

Signature L.T. Tucker  
Name L.T. Tucker  
Company Name Accurate Appraisal  
Company Address 1212 State St.  
Pleasant Valley, XY 99999  
Telephone Number (713) 111-1111  
Email Address \_\_\_\_\_  
Date of Signature and Report 06/04/2012  
Effective Date of Appraisal 06/04/2012  
State Certification # \_\_\_\_\_  
or State License # 98765  
or Other (describe) \_\_\_\_\_ State # \_\_\_\_\_  
State XY  
Expiration Date of Certification or License 01/01/2014  
ADDRESS OF PROPERTY APPRAISED  
126 Lake View Lane  
Pleasant Valley, XY 99999  
APPRAISED VALUE OF SUBJECT PROPERTY \$ 201,000  
LENDER/CLIENT  
Name John Smith  
Company Name ABC Mortgage Company  
Company Address 1000 Any Street, Suite 200  
Pleasant Valley, XY 99999  
Email Address \_\_\_\_\_

## SUPERVISORY APPRAISER (ONLY IF REQUIRED)

Signature \_\_\_\_\_  
Name \_\_\_\_\_  
Company Name \_\_\_\_\_  
Company Address \_\_\_\_\_  
Telephone Number \_\_\_\_\_  
Email Address \_\_\_\_\_  
Date of Signature \_\_\_\_\_  
State Certification # \_\_\_\_\_  
or State License # \_\_\_\_\_  
or State License # \_\_\_\_\_  
State \_\_\_\_\_  
Expiration Date of Certification or License \_\_\_\_\_  
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 comparable sales from street  
☐ Did inspect exterior comparable sales from street  
Date of Inspection \_\_\_\_\_

- 14 Appraiser – validation by the appraiser that the certification terms have been met, including the appraiser's signature, contact information and license/certification information



For a deeper understanding of evaluating appraisals, ask your MGIC Account Manager about MGIC's appraisal training class or go to [www.mgic.com/training](http://www.mgic.com/training) to sign up for an online webinar.



# Appendix E

## The Sales Contract

**RESIDENTIAL OFFER TO PURCHASE**

May 24, 2012

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  
2 in the city of Pleasant Valley, County of Valley  
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, 2012  
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 % 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 \$3,000 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, 2012  
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, 2012  
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.

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

- 1 Names of buyers
- 2 Property address/description
- 3 Sales price
- 4 Date new loan approval is required
- 5 Type of financing (Fixed, ARM)
- 6 Discount points
- 7 Earnest money deposit
- 8 Closing date
- 9 Date of possession

(Seller warrants) (Map dated May 1, 2010) the property ~~(is)~~ (is not) located in a flood plain (Strike as applicable).  
 Seller warrants and represents to Buyer that Seller has no notice or knowledge of any:  
 (a) planned or commenced public improvements which may result in special assessments or otherwise materially affect the property.  
 (b) government agency or court order requiring repair, alteration or correction of any existing condition.  
 (c) underground storage tanks or any structural, mechanical or other defects of material significance affecting the property including but not limited to inadequacy for normal residential use of mechanical systems, waste disposal systems and well, unsafe well water according to state standards, and the presence of any dangerous or toxic materials or conditions affecting the property.  
 (d) wetland and shoreland regulations affecting the property (Caution: see maps).  
 EXCEPTIONS TO WARRANTIES AND REPRESENTATIONS IN (a) - (d) ABOVE: N/A

The following items shall be prorated as of the date of closing: general taxes, rents, water and sewer use charges, homeowners' association assessments, fuel and N/A  
 Any income, taxes, or expenses through the day of closing accrue to Seller.

General taxes shall be prorated at the time of closing based on the net general taxes for the current year, if known, otherwise on the net general taxes for the preceding year.  
 CAUTION: If the property has not been fully assessed for tax purposes, or reassessments completed or pending, tax proration shall be on the basis of \$ 2,500 estimated annual tax.

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

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

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

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

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

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

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

In making the disbursement, the broker shall follow applicable state law procedures.

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

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

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

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

Peter Simon (buyer) Elizabeth Simon (buyer)

Buyer's Social Security No. XXX-XX-2020 Buyer's Social Security No. XXX-XX-9652

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

Dated: May 25, 2012 Sam Seller (seller)

Offer is rejected (Seller initial) Seller's Social Security No. XXX-XX-7890 (seller)

Offer is countered (Seller initial) Seller's Social Security No. \_\_\_\_\_ (seller)

This offer was drafted by (Licensee and firm) Home Realty  
 It was presented to Seller Jim Brown on May 24, 2012 at 9:00 a.m.

COMMISSION

#### EARNEST MONEY RECEIPT

Broker acknowledges receipt of initial earnest money as per above offer.

May 24, 2012 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 buyers' home, property inspection, etc.)
- seller contributions
- counteroffer(s)

# Appendix F

## Answer Key

### Exercise 1: Navigating Through the Credit Report

- Identify the three repository sources:  
a. Equifax b. Experian c. 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	10/11

- 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 representative score for each borrower?  
720 & 742
- What is the representative 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 (Lease)	\$500
Autoworld	Installment (Lease)	\$368
Acme Credit	Revolving	\$32
Gas Card	Revolving	\$35
Discover	Revolving	\$50

### Exercise 2: Determining Gross Monthly Income

- What type of pay period is reflected on the following pay stub:
  - 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 \$5,000.00
- 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 \$5,034.98 or \$5,035.00 (averaged over 5.5 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: \$450.70 or \$451.00 (29.75-month average)
- Do the past two 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
- Are there any loan deductions reflected on the pay stubs?
  - Franklin Elementary School – Peter Simon no
  - Web Vision Inc. – Elizabeth Simon yes

If yes, does the deduction need to be included in the borrowers' total debt ratio?  
Because the loan is a 401(k) loan secured by the borrowers' retirement savings, and the value of the asset is greater than the outstanding balance of the loan, it typically does not need to be included in the total debt 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 04/02.

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 two-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?

Donor's name, relationship to the borrowers, mailing address, phone number, address of the subject property and the amount of the gift. The donor's signature is required if the above information is provided in the form of a gift letter.

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

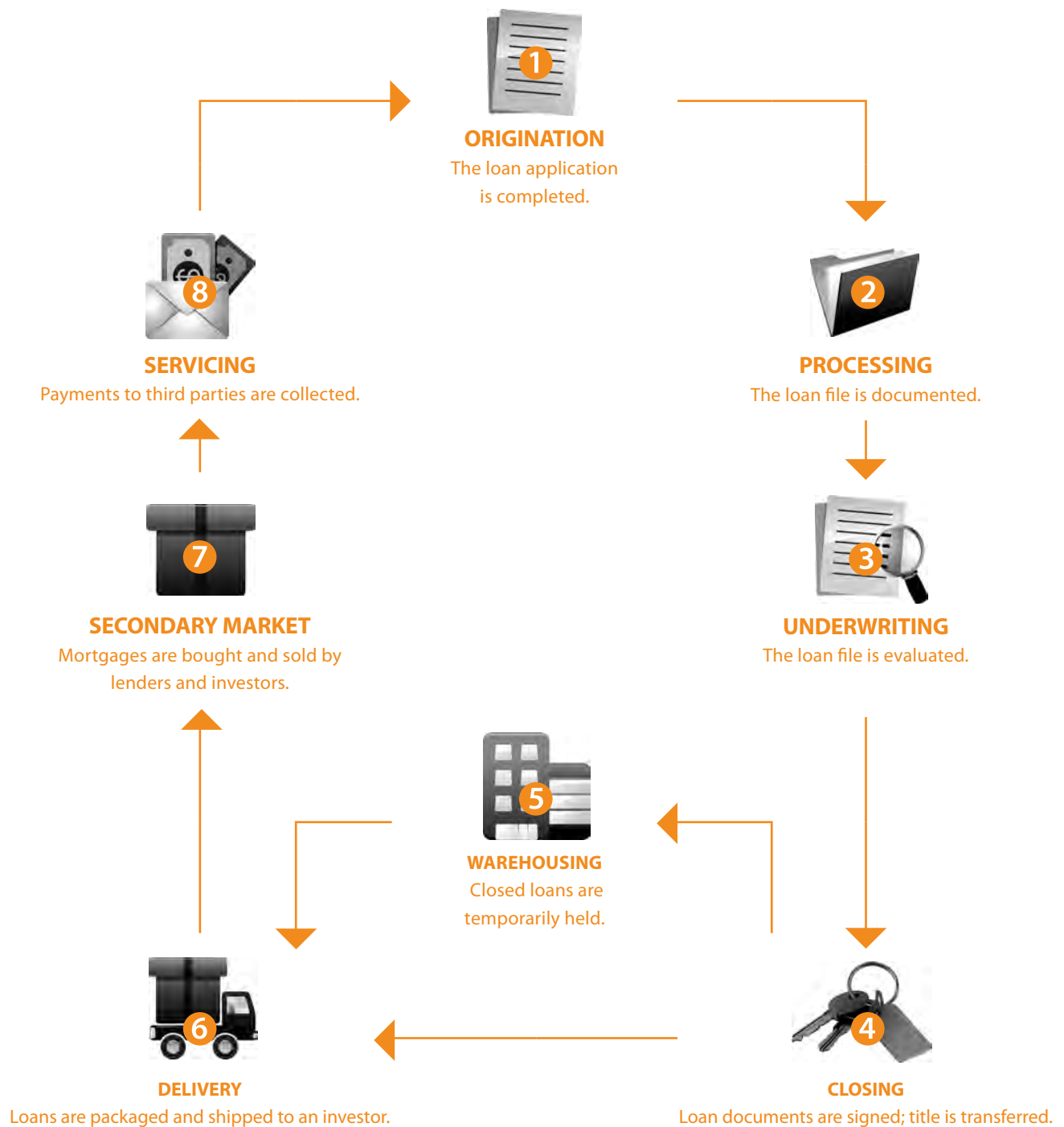
Provide proof of ownership of the asset being sold.

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 Eight Stages of the Mortgage Cycle

For more information about the Mortgage Cycle, ask your MGIC Account Manager about *Putting the Pieces Together Book 1: Understanding the Mortgage Cycle*.



## Notes

## Notes





