MI Decision Tips

Enact

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Enact's Risk Quality Assurance team creates this report to help underwriters and processors submit quality originations. Each quarter, you can use this report to discover the most frequently made Agency and MI decision errors and learn how to avoid them. You will find the specific Agency guideline requirement along with best practices and links to Enact's online training modules. Remember, loans requiring an exception to Enact published guidelines must be sent in for an Enact underwrite.

Assets – Analyzing the Borrower's Assets		
Defect	Underwriting Guideline	Best Practices & Examples
Source of Funds not Properly Documented for Large Deposits Insufficient Funds for Closing and/or Reserves	Enact will accept GSE standard underwriting guidelines for asset assessment or the least restrictive of the agencies' guidelines on manually underwritten loans. If funds from a large deposit are required for closing/reserves, documentation must be obtained to ensure those funds are from an acceptable source. If another Borrower account is the source for the large deposit that account must be documented and present in the loan file. Lender must document sufficient funds required for closing based on the final Closing Disclosure and reserves, if applicable for your program. For additional details on Assets, visit Fannie Mae Chapter B3-4: Asset Assessment or Freddie Mac Chapter 5501: Assets in their respective Selling Guides	**Example 1:** Missing documentation of source of funds for large deposits (08/22, $5,900) into savings account. **Example 2:** Insufficient verified liquid funds for closing due to missing source of funds for prepaid items. Verified liquid funds in the file are $34,842.14; funds are short by $574.41. (Cash to close per closing disclosure statement was $35,386.55). **Best Practices:** Review bank statements carefully for any large deposit (any single deposit exceeding 50% of total monthly qualifying income) and validate statements are complete and not expired. Remember large deposits could indicate undisclosed debts may have been incurred to source a down payment. Add a condition on your loan approval that states the amount of assets verified and available for closing. Instruct the closing department that if what is required at closing is more than the amount on the approval, the loan must go back through underwriting for review. **Enact Asset Training:** Asset Review

Income – Analyzing the Borrower’s Income

Defect	Underwriting Guideline	Best Practices & Examples
Incorrect Income Calculation (not self-employed) Borrower not employed at time of closing Missing VVOE Missing Complete Income Documentation Income/Employment Misrep	Enact accepts most income calculations as defined by GSE standard underwriting guidelines. See Enact Underwriting Guidelines Section 7.11 Employment and Income for specific details. Income that fluctuates over time such as OT, commission, hourly income, etc. must be analyzed for stability, predictability, and likeliness to continue. Document by obtaining a history of income, evaluate trends and average income over the required period. The verbal VOE requirement is intended to help lenders mitigate risk by confirming, as late in the process as possible, that the borrower remains employed as originally disclosed on the loan application. A change in the borrower’s employment status could have a significant impact on that borrower’s capacity to repay the mortgage loan and must be fully reevaluated. The underwriter needs to review the AUS for the minimum level of documentation required for the loan. It may not be adequate for the loan’s particular circumstances so additional documentation may be warranted to substantiate the loan decision. For additional details on Income, visit Fannie Mae Chapter B3-3.1-01 General Income Information and Lender Letter (LL-2021-03) or Freddie Mac Chapter 5300: Stable Monthly Income and Asset Qualification Sources. For additional details on fraud prevention and best practices go to singlefamily.fanniemae.com/mortgage-fraud-prevention or sf.freddiemac.com/working-with-us/fraud-prevention/emerging-fraud-schemes.	**Example 1:** Bonus and overtime income calculated incorrectly. Underwriter used 10.26 month average; however, LPA℠ is requiring 2 years verification of bonus/overtime income. Using 24 month average on current/previous job overtime/bonus income is $637.50. Using base of $3,333.20, bonus/OT of $637.56 and positive rental income of $69, DTI exceeds guidelines at 54.4%. **Example 2:** Co-borrower was qualified using income from two employers. The Work Number re-verification with employer #2 indicates the borrower is Inactive as of 8/16/2022. Closing date was 8/22/2022. DTI without 2nd job income is 55.7%. **Example 3:** Missing two years W2’s 2021/2020 per DU®. **Example 4:** Third party research reflects B2 is self-employed as owner of the business reported on URLA. Loan is ineligible as self-employed documentation was not obtained. **Example 5:** Borrower recently started new employment on 10/09/22 as a Manager of a Liquor Store making $137,800/year. Borrowers’ previous employment, which per letter in file shows he is now a part-time employee, was as a cocktail wait staff making $18,681 through mid-October 2022. File contains inconsistent income documentation for new employment as two paystubs only cover a period of six days a week vs seven. Also, both paystubs have the same salary amount of $2,650 with the same amount of deductions, however one paystub shows net pay of $2,300 and the other $1,100. **Best Practices:** Conduct income analysis training for underwriters to identify how to calculate fluctuating income and ensure YTD income supports qualifying income. Implement a policy to reverify the borrower’s employment as close to closing as possible or contact the borrower at their place of employment close to closing to confirm no changes in their employment or income. Have borrowers sign an attestation at closing stating they are still employed with current employer, intend to occupy subject as represented and have not opened any new debt prior to closing. **Enact Income Training:** Review and Calculate Base Income Review and Calculate Misc Employment Income Shut the Door on Fraud Part I Shut the Door on Fraud Part II

Program - Analyzing the Borrower's Program		
Defect	**Underwriting Guideline**	**Best Practices & Examples**
Occupancy Misrep	Occupancy type matters due to the different levels of risk and guidelines pertaining to primary, second and investment properties. Lower risk transactions allow for high LTV's and lower interest rates. This difference could be an incentive for borrowers to misrepresent an investment property for a primary. For additional details on Owner Occupancy common red flags, see Fannie Mae Mortgage Fraud Prevention section in their Selling Guide.	**Example 1:** Misrepresented Occupancy – Loan closed as a primary residence; however, various websites show subject property was listed for rent on 3/18/2023 for $1,600/month. Loan closed on 3/2/2023. **Example 2:** Lease agreement for departure dated 1/02/2023 for $7,000 per month to begin 2/01/2023 was used to offset PITI. Departure was found online listed for rent for $12,000 per month as of 3/15/2023 with available date of 04/01/2023. Loan closed 2/14/2023. Including full PITI of departure DTI is 71.3%. **Best Practices:** Be aware of common red flags and question as necessary. Have borrowers sign an attestation at closing stating they are still employed with current employer, intend to occupy subject as represented and have not opened any new debt prior to closing. Require documentation that supports the lease with the actual receipt of lease income (security deposit and first month's rent checks) and evidence of deposit. Review the homeowner insurance document to confirm Borrower intends to occupy. Question large increases in salary that just occurred prior to application or in the new tax year. Closely review income documentation for any red flags such as odd pay schedules, incorrect state/FICA withholdings amounts, employer addresses being single family residences, then conduct web search of the business to see if the size and revenue of the company supports the salary of the borrower.

Credit – Analyzing the Borrower's Credit		
Defect	**Underwriting Guideline**	**Best Practices & Examples**
Verification of the Monthly Housing Payment was not Documented Obligations Miscalculated/ Debt Excluded Affecting Ratios	Under Enact's Simply Underwrite Eligibility guidelines, Lenders must follow the documentation required by DU and Loan Product Advisor®. Additional documentation may be warranted to support the underwriting decision, per Fannie Mae and Freddie Mac guidance. Not every mortgage loan includes escrows so obtain a current mortgage statement for each property owned to verify taxes, insurance, etc. payments are being escrowed. If not, be sure to obtain appropriate documentation to validate amounts being paid. Review closely the bank statements to ensure recurring monthly payments not reported on the credit report are included in the DTI. Ensure liabilities being omitted from DTI are documented appropriately as paid off, paid by another individual, etc. For additional details on liabilities, visit Fannie Mae Chapter B3-6: Liability Assessment or Freddie Mac Chapter 5201: Credit Assessment with Loan Product Advisor.	**Example 1:** Total monthly housing (PITI and/or HOA) of property listed on REO was not documented. Borrowers are retaining second home. Missing proof of taxes, insurance, HOA on property and owned free and clear. **Example 2:** No evidence provided as to why the education loan with balance of $8,314 was omitted. DTI increases to 50.8% with inclusion of debt. The credit report lists two different education loans with balances of $8,314 yet only one of the loans was included in the DTI. **Example 3:** Loan was underwritten omitting auto loan with payment of $298 and file is missing documentation to confirm payoff. DTI with additional debt is 50.7%. **Best Practices:** Require in your doc set that Borrowers provide a mortgage statement for all other properties owned include departure residence. Provide documentation of HOA dues if applicable. **Enact Liability Training:** Liabilities: Calculating and Modifying the DTI

For More Information

Contact us at Action.Center@EnactMI.com or 800-444-5664 for questions or to give us feedback.

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