



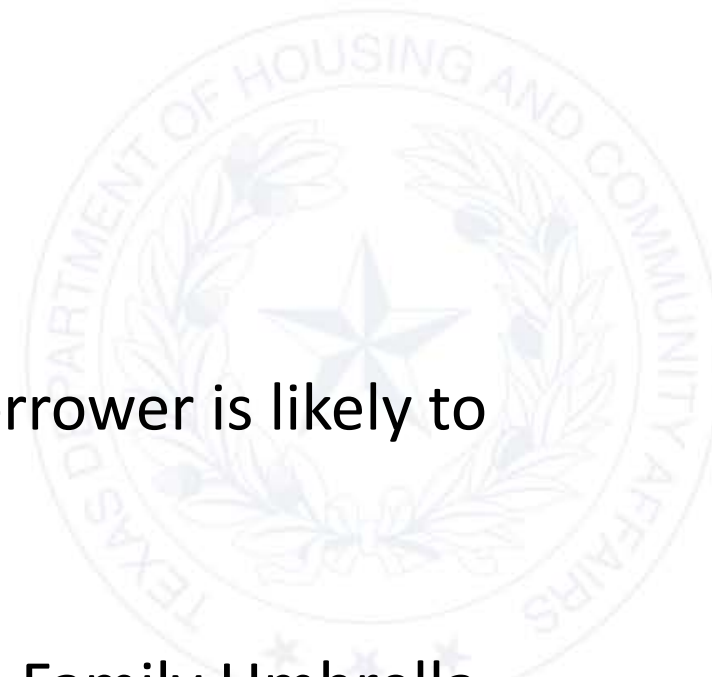
# HOME Repayable Loan Underwriting Series Module 1: Credit Review

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12/6/2019

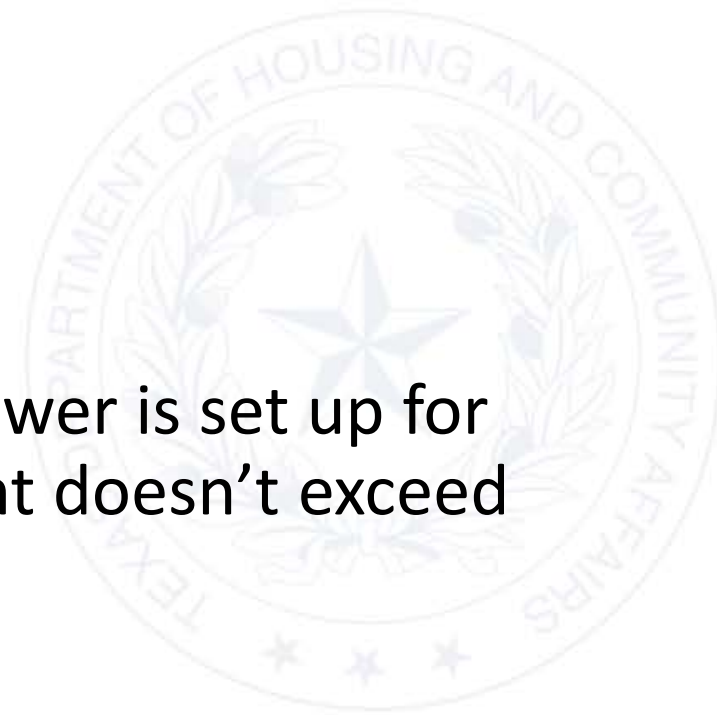
# Section 1: Overview





# What is loan underwriting?

- Loan underwriting is the process used to determine if a borrower is likely to repay a loan based on the agreed upon terms
- TDHCA's underwriting guidelines are included in the Single Family Umbrella Rule at [10 TAC Chapter 20.13](#) and in the HOME Program Rules at [10 TAC Chapter 23](#).
- Loan underwriting is required for any repayable mortgage loan issued by TDHCA, including HOME repayable loans under Single Family Development (SFD) and Homebuyer Assistance with New Construction (HANC)

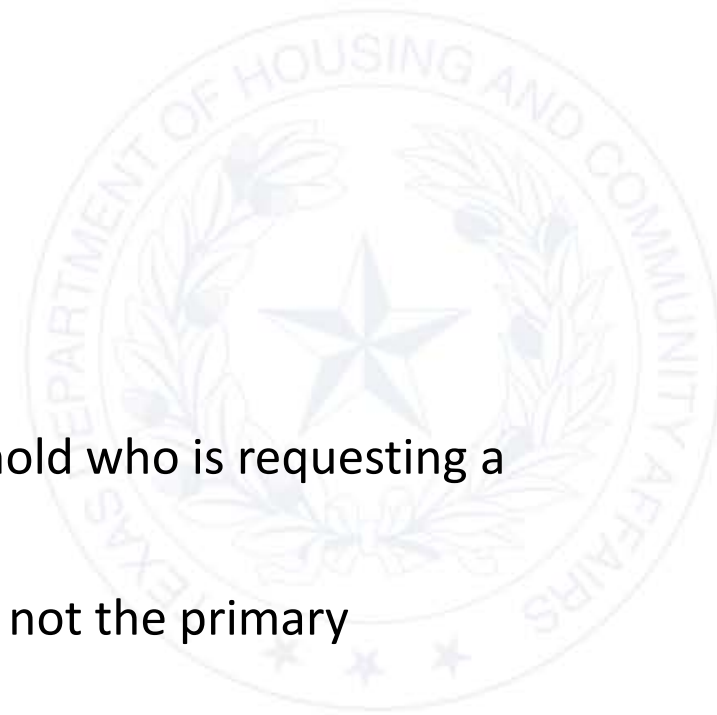


## Why does TDHCA require underwriting?

- TDHCA requires underwriting to ensure that the borrower is set up for successful repayment by making sure that the payment doesn't exceed the ability to repay.
- HOME requires additional underwriting to ensure that the borrower is not over subsidized as required by the HOME Final Rule at 24 CFR 92.250.

# Common Credit Underwriting Terms

- Some common terms in TDHCA's credit underwriting are:
  - Borrower– The borrower is the primary member of the assisted household who is requesting a mortgage loan
  - Co-Borrower – The co-borrower is any adult household member who is not the primary borrower, but will be included on the loan
  - Non-Purchasing Spouse – A non-purchasing spouse is the spouse of the borrower who will not be included on the loan documents.
  - Debt-to-Income Ratio (DTI or “Back-End Ratio”) – The ratio of the borrower's monthly recurring debt or obligations (including the PITI) to the borrower's gross income. For TDHCA loans, the debt of the non-purchasing spouse IS included, but their income is not included for the DTI Ratio.
  - Front-End Ratio (FRE) – The ratio of the PITI to the gross household income. This includes all household members, including borrower, non-purchasing spouse, and other household members.



# Requirements for Borrowers and Non-purchasing Spouse

- The credit history review must be performed for the borrower and all co-borrowers.
  - Co-borrowers may include a purchasing spouse and/or any adult household members who will be included on the loan.
  - All borrowers/non-purchasing spouse must execute a Credit Release Form.
  - The credit history of a non-purchasing spouse is not required to be reviewed for acceptability; however, their income is excluded for underwriting purposes and their debt is counted.

# Questions?



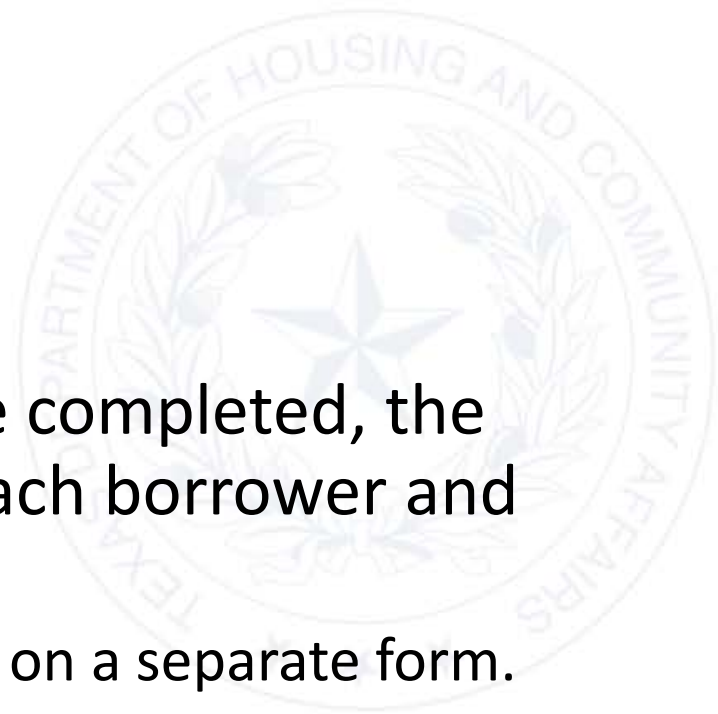
## Section 2: Credit History Review





# Credit History Review

- [10 TAC §20.13](#) requires all potential borrowers to demonstrate a reasonable ability and willingness to meet debt obligations
  - Applies to all non-forgivable amortizing TDHCA mortgage loans (repayable loans)
  - Borrowers may have acceptable credit, or unacceptable credit.
  - Borrowers with unacceptable credit may be able to mitigate the unacceptable credit.
  - Non-purchasing spouse does not have to be reviewed for acceptable credit.

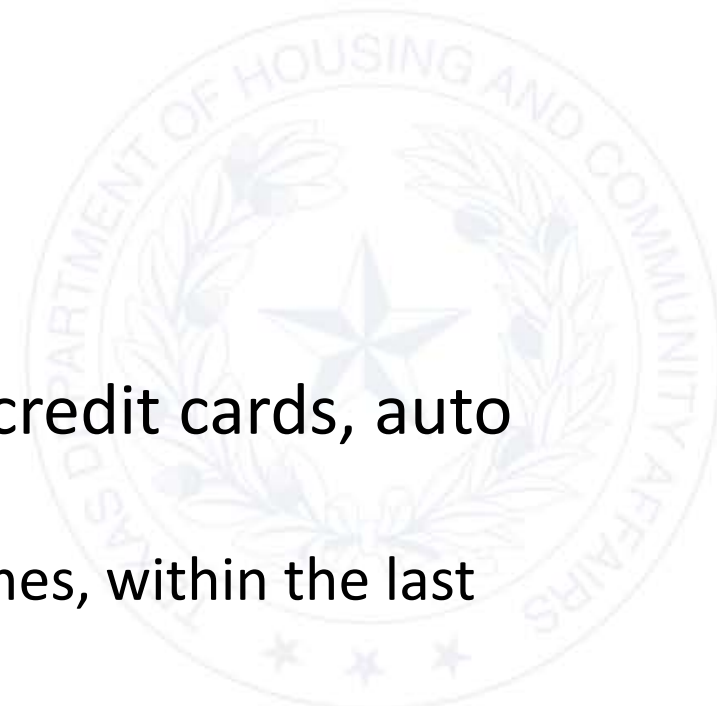


## Obtaining Credit Reports

- After the Loan Application and Credit Release form are completed, the HOME Administrator must obtain a credit report for each borrower and the non-purchasing spouse.
  - All borrowers and the non-purchasing spouse must consent on a separate form.
- The Administrator may obtain the credit report from any credit reporting service.
- Credit reports must not be older than 90 days at the time of review

## Unacceptable Credit Overview

- There are multiple factors which must be reviewed for the borrower and co-borrowers to determine if their credit history has disqualifying factors, rendering their credit unacceptable for a repayable TDHCA loan.
- These factors are not reviewed for a non-purchasing spouse or any household member who is not a borrower.
- Medical debt is excluded from the review.



## Unacceptable Credit – Consumer Accounts

- Open consumer, retail, and/or installments accounts (credit cards, auto loans, personal loans) which:
  - Have been delinquent for more than 30 days, 2 or more times, within the last 12 months.
  - Have not been current for at least 6 months preceding the loan application date
- Any account placed in collection, profit and loss, or charged off within 24 months of loan application with an outstanding balance

## Unacceptable Credit – Mitigation for Consumer Accounts

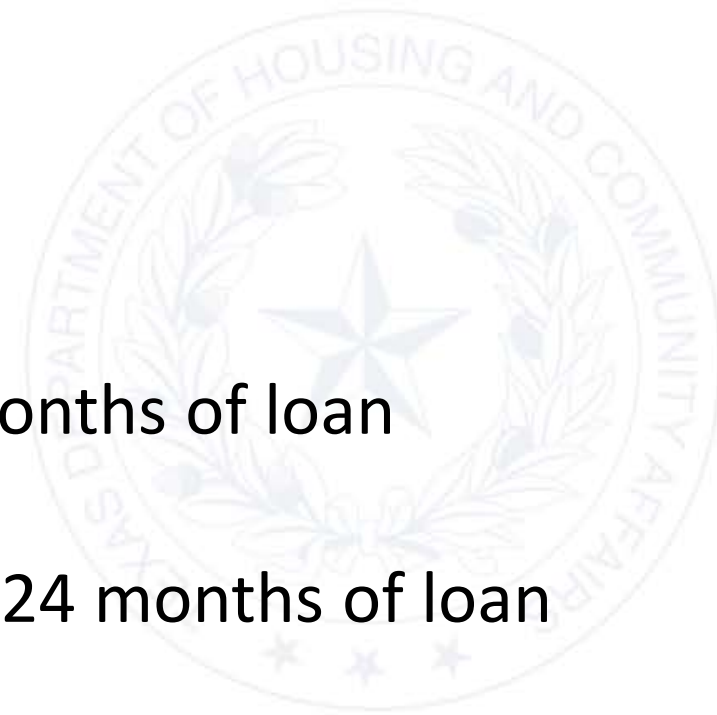
- Debt has been brought current and Borrower submits of a written explanation of the cause for the delinquency
  - Explanation is acceptable to the Executive Director or designee

OR

- The potential Borrower provides documentation to evidence that the outstanding delinquency or unpaid account has been paid or settled, or the potential Borrower has entered into a satisfactory repayment arrangement or debt management plan and been current for at least 12 consecutive months prior to the date of Mortgage Loan.

## Unacceptable Credit – Mortgage Loans

- Foreclosure or deed-in-lieu of foreclosure within 24 months of loan application date
- Short-sale of property due to borrower default within 24 months of loan application date
- IRS or other tax lien with no repayment arrangement
  - If there is an arrangement, payments under the arrangement must have been current for at least 12 months prior to loan application date





## Unacceptable Credit – Bankruptcy

- Bankruptcy filed within 24 months of the loan application date is unacceptable credit.
- Bankruptcy may be mitigated if:
  - The bankruptcy was discharged or dismissed more than 12 months prior to the loan application date **and**
  - The borrower has re-established good credit with at least one existing or new active consumer account or credit account that is in good standing with no delinquencies for at least 12 months prior to the date of Mortgage Loan application.
  - If a Chapter 13 Bankruptcy was filed, a potential Borrower must have satisfactorily made 12 consecutive payments and obtain court trustee's written approval to enter into Mortgage Loan.

## Unacceptable Credit – Other Items

- Any delinquency on any government debt as of the date of the loan application (e.g. taxes, student loans)
- A court ordered obligation or judgement caused by nonpayment
  - May be mitigated by release of judgement prior to loan closing
- Child support payment in arrears without a satisfactory payment arrangement or where payments have not been made as agreed for 12 months prior to the date of the loan application







## Other Mitigation for Unacceptable Credit

- If a potential Borrower is currently participating in a debt management plan, and the trustee or assignee provides a letter to the Department stating they are aware and agree with the potential borrower applying for a Mortgage Loan, unacceptable credit may be mitigated.
- This does not apply to debt settlement programs or debt consolidation loans.

# Questions about credit history review?

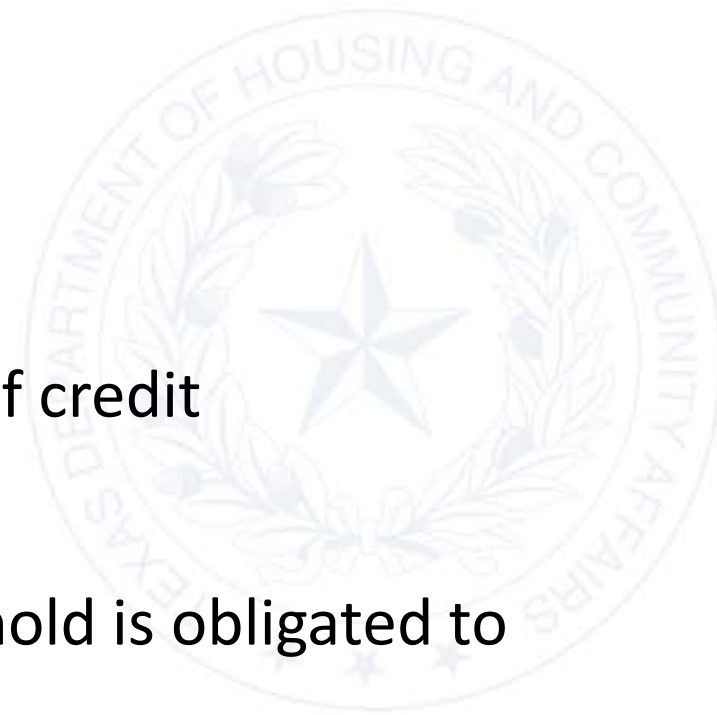


## Section 3: Debt Service



# Debt Service

- Determining the monthly debt service is the second part of credit underwriting.
- Debt service means the amount of money that the household is obligated to pay each month to creditors or other parties.
- Debts of the borrower, co-borrower(s), and non-purchasing spouse must be counted, including debt for which the borrower, co-borrower, or non-purchasing spouse co-signed.
- TDHCA's requirements for calculating debt service are located at [10 TAC §20.13\(d\)\(2\)\(D\)](#).



# Debts and Obligations Included in the Debt Service

## Debt from credit report

- Revolving charge accounts
- Real estate loans
- Installment loans
- Payday loans
- Lines of credit
- Personal loans
- Student loans

## Other costs included as debt in the DTI

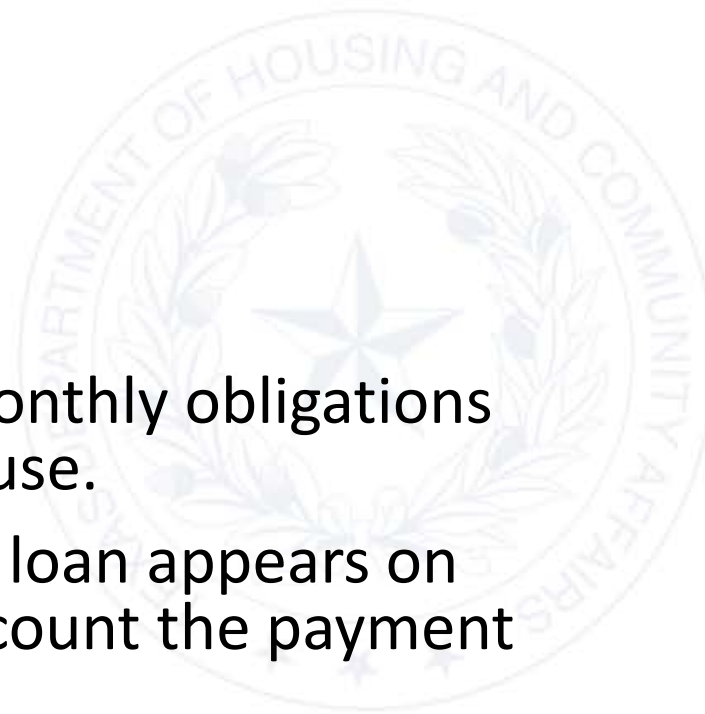
- Alimony/Spousal support
- Court ordered child support
- Other court-ordered payments

# Which items are excluded from debt service

## Excluded

- Medical debts
- Installment debts which have 10 or fewer remaining payments





## Calculating Total Debt Service

- To calculate the debt service, add together the required monthly obligations for the borrower, co-borrower(s), and non-purchasing spouse.
- Count each debt only once. For example, if the same auto loan appears on both the borrower and co-borrower's credit reports, only count the payment once.
- If there is no minimum payment reflected on the credit report, one of the following options is acceptable:
  - If a loan is in forbearance or has not yet commenced, use 1% of the outstanding balance if that is less than the payment amount on the credit report.
  - Use the greater of \$10 or 5% of the current balance. For example, if a credit card has a \$1,000 balance, include a payment amount of \$50.00 per month OR
  - If the borrower has a recent statement showing the minimum payment due, this amount may be utilized.

# Questions about debt service?



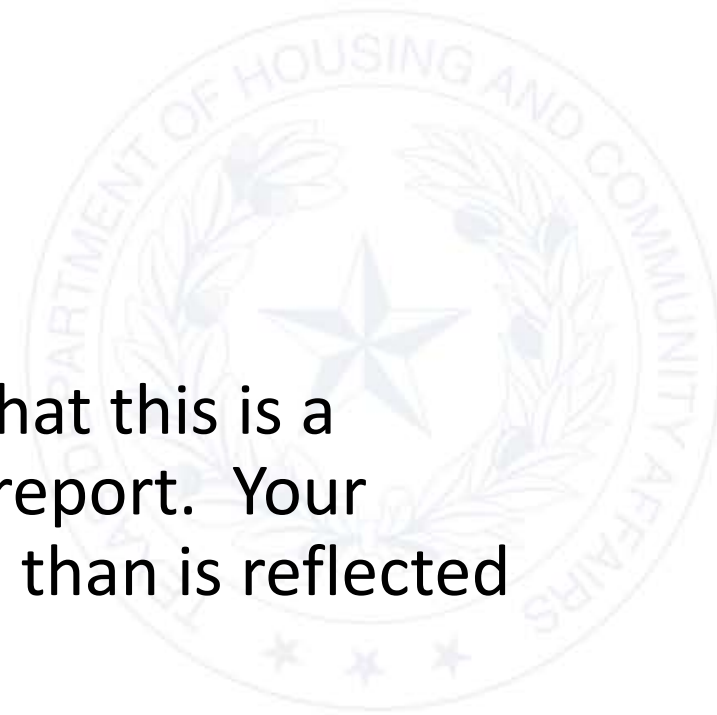


## Section 4: Credit Report



## Reading the Credit Report

- We are going to review a sample credit report. Note that this is a sample and each vendor produces a different style of report. Your selected vendor may provide more or less information than is reflected on this sample.
- This sample report is a tri-merge credit report, meaning that the information from Experian, Equifax, and Transunion are all included in the report. Tri-merge reports are commonly utilized for credit determinations.

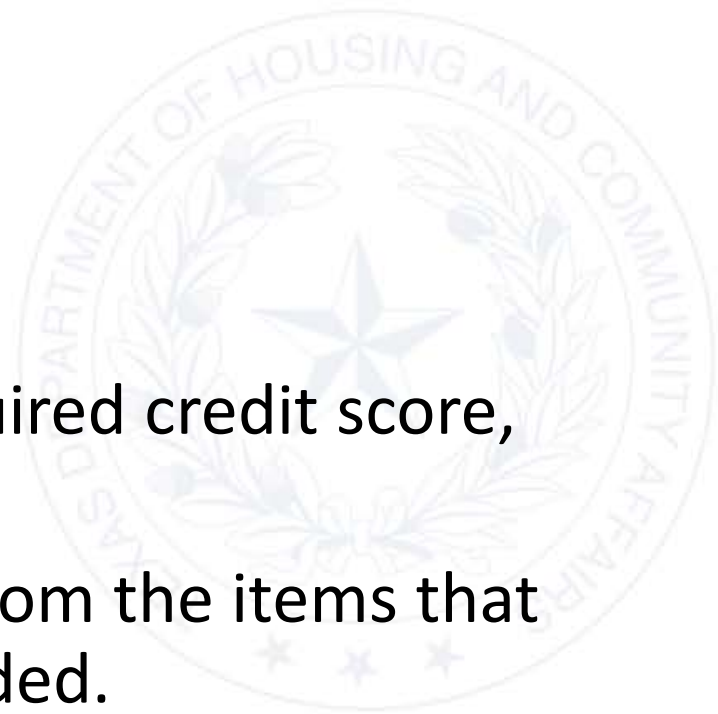


# Basic Identification Information

- This section provides basic information about the borrower(s). You may use this to confirm that the credit report is for your applicant.
  - Name and date of birth



Identification (as requested)						
Applicant's last name	First name	Middle	Suffix	DOB	Social Security	
SMITH	ROBERT	A		01/02/1975	xxx-xx-xxxx	
Co-applicant's last name	First name	Middle	Suffix	DOB	Social Security	
SMITH	BARBRA	KAY		02/03/1977	xxx-xx-xxxx	
Residence Information (as requested)						
Present	123 WIDESTREET DRIVE		BIG TOWN	TX	79800	Telephone
File Variations						
Equifax	<a href="#">BQ1</a>	xxx-xx-xxxx	SMITH, ROBERT A		01/02/1975	11/11/19 12:12
Experian	<a href="#">BX1</a>	xxx-xx-xxxx	SMITH, ROBERT			11/11/19 12:12
Trans Union	<a href="#">BU1</a>	xxx-xx-xxxx	SMITH, ROBERT A		01/02/1975	11/11/19 12:12
Trans Union	<a href="#">CU1</a>	xxx-xx-xxxx	SMITH, BARBRA KAY		02/03/1977	11/11/19 12:12
Equifax	<a href="#">CQ1</a>	xxx-xx-xxxx	SMITH, BARBRA KAY		02/03/1977	11/11/19 12:12
Experian	<a href="#">CX1</a>	xxx-xx-xxxx	SMITH, BARBRA KAY		1977	11/11/19 12:12



# Credit Score Information

- HOME Program activities do not have a minimum required credit score, so this section may be disregarded.
- Receipt of credit score information may be excluded from the items that are pulled in the credit report. Exclusion is recommended.

Credit Score Information						
	Repository	Brand	Type			
601	TransUnion	Classic 04	FICO	xxx-xx-xxxx	SMITH, ROBERT A	BU1
	040 - Derogatory public record or collection filed 010 - Proportion of balances to credit limits is too high on bank revolving or other revolving accounts					
592	Experian	Fair Isaac V2	FICO	xxx-xx-xxxx	SMITH, ROBERT	BX1
	40 - Derogatory public record or collection filed 10 - Ratio of balance to limit on bank revolving or other rev accts too high					

# Credit History Information

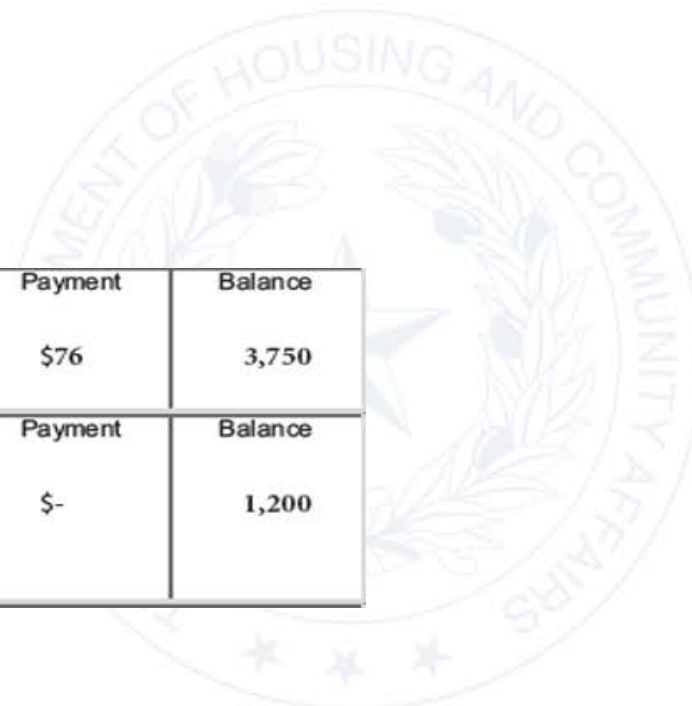
- This is an example of the primary source of information in the credit report.

Credit History								Pastdue	Payment	Balance
<u>GMAC Financing</u> 7050134222111	Opened 09/2017	Reported 11/19	High balance 18,350	Reviewed 26 mos	30 1	60 0	90+ 0	Pastdue -0-	Payment 58 X \$293	Balance 11,827
	Last active 11/2019	BX1 CX1 BU1 CU1 BQ1 CQ1 [Joint]	High limit —	Install (I1) Auto						
<u>UNVL/CITI</u> 54412354321	Opened 03/19	Reported 11/19	High balance 4,500	Reviewed 99 mos	30 0	60 0	90+ 0	Pastdue -0-	Payment \$76	Balance 3,750
	Last active 08/19	CX1 CU1 CQ1 [Ind]	High limit 4,500	Revol (R1) Credit card						
<u>CHASE</u> 44019098775783011	Opened 06/15	Reported 11/19	High balance 1,787	Reviewed 99 mos	30 0	60 0	90+ 0	Pastdue -0-	Payment \$-	Balance 1,200
	Last active 11/19	BX1 BU1 BQ1 [Ind]	High limit 1,600	Revol (R1) Credit card						
<u>MEDICRDT NC</u> 48858208	Opened 10/18	Reported 10/19	High balance 396	Reviewed —	30 0	60 0	90+ 0	Pastdue -396-	Payment Collection 10/19	Balance -396-
	Last active 10/18	*BX1 *BU1 *BQ1 [Ind]	High limit 396	Install (I9) Unknown						
Anywhereville Regional Medic; Unpaid; Medical;										
<b>TOTALS</b>		High credit	High balance					Pastdue	Payment	Balance
		24,842	25,033					396	404	17,173

# Review of Each Account – Installment Accounts

<a href="#">GMAC Financing</a> 7050134222111	Opened 09/2017	Reported 11/19	High balance 18,350	Reviewed 26 mos	30 1	60 0	90+ 0	Pastdue -0-	Payment 58 X \$293	Balance 11,827
	Last active 11/2019	BX1 CX1 BU1 CU1 BQ1 CQ1 [Joint]	High limit ---	Install (11) Auto						
<a href="#">MEDICRDT NC</a> 48858208	Opened 10/18	Reported 10/19	High balance 396	Reviewed ---	30 0	60 0	90+ 0	Pastdue -396-	Payment Collection 10/19	Balance -396-
	Last active 10/18	*BX1 *BU1 *BQ1 [Ind]	High limit 396	Install (19) Unknown						
	Anywhereville Regional Medic; Unpaid; Medical;									

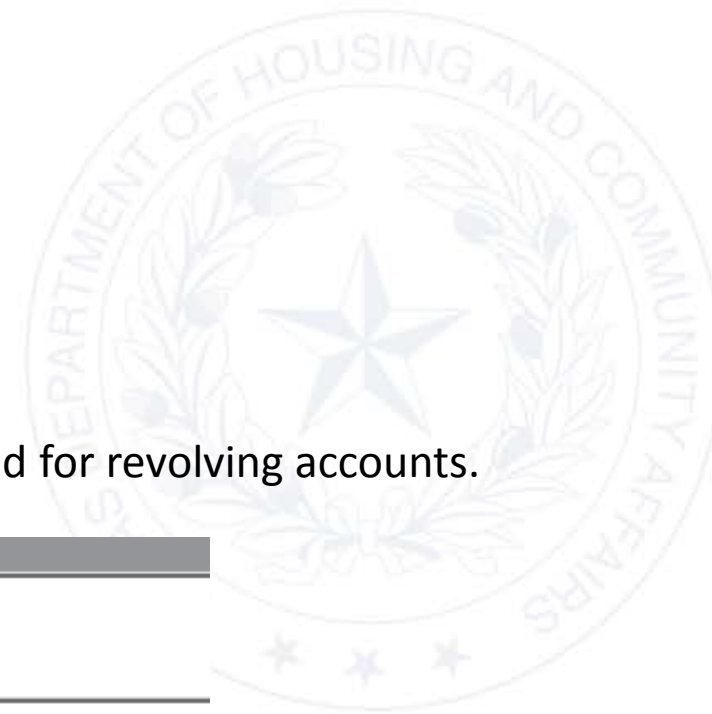
- Review each installment account for the following:
  - Is the account excluded?
    - Less than 10 months remaining on installment loan
    - Medical bill
  - Is the account current (no past-due balance?)
  - Has the account had a payment that was more than 30 days late in the last 12 months?
    - Was there more than one late payment?
    - Were all payments due within 6 months of the loan application made on time?
    - May have to request a supplement to the credit report if past due payments are shown.
  - What is the monthly payment amount?



# Review of Each Account – Revolving Accounts

<a href="#">UNVL/CITI</a> 54412354321	Opened 03/19	Reported 11/19	High balance 4,500	Reviewed 99 mos	30 0	60 0	90+ 0	Pastdue	Payment	Balance
	Last active 08/19	CX1 CU1 CQ1 [Ind]	High limit 4,500	Revolv (R1) Credit card			-0-	\$76	3,750	
<a href="#">CHASE</a> 44019098775783011	Opened 06/15	Reported 11/19	High balance 1,787	Reviewed 99 mos	30 0	60 0	90+ 0	Pastdue	Payment	Balance
	Last active 11/19	BX1 BU1 BQ1 [Ind]	High limit 1,600	Revolv (R1) Credit card			-0-	\$-	1,200	

- Review each revolving account for the following:
  - Is the account excluded?
    - Medical bills are generally included as installment accounts.
  - Is the account current (no past-due balance?)
  - Has the account had a payment that was more than 30 days late in the last 12 months?
    - Was there more than one late payment?
    - Were all payments due within 6 months of the loan application made on time?
    - May have to request a supplement to the credit report if past due payments are shown.
  - What is the monthly payment amount?



# Summary Information

- This section provides an overview of the report.
  - The monthly payments shown may not reflect all monthly payments calculated for revolving accounts.

Summary Information					
General summations	06/15	Oldest tradeline date	Payment summaries	111	Open revolving payments
	0	Public records		293	Open installment payments
	1	Number of inquiries 90 days		404	Total open payments
Late payments	1	Payments 30 to 59 days late	Balance owed	293	Balance monthly owed
	0	Payments 60 to 89 days late		4,950	Revolving balance owed
	0	Payments 90 and over days late		11,827	Installment balance owed
				17,173	Total balance owed
Trades numbers	2	Number of open revolving trades	Amount past due	0	Revolving amount past due
	1	Number of open installment trades		0	Installment amount past due
	3	Number of balance monthly trades		0	Balance monthly amount past due
	3	Total number of trades		0	Total amount past due
Adverse trade lines	1	Number of collection trade lines	High credit /balance	6,100	Revolving credit limit
	0	Number of bankruptcy trade lines		6,287	Revolving high balance
	0	Number of foreclosed trade lines		18,350	Installment high balance
	0	Number of profit and loss trade lines			
	0	Number of repossession trade lines			
	1	Number of adverse trade lines			
2	Total number of trade lines				



# Public Records and Other Information

- Review the Public Records for liens, judgements, and bankruptcies
- Review residence and employment information for consistency with the Application.

Public Records								
No Public Records found								
Database Residence Information						First	Last	
<a href="#">123 WIDESTREET DRIVE</a>	BIG TOWN	CO	80002	09/97	11/07			BQ1 BX1 BU1 CU1 CQ1 CX1
<a href="#">456 GREEN STREET</a>	LITTLE TOWN	UT	84525	—	—			CU1
Database Employment Information						First	Last	
<a href="#">RAILROAD</a>						—	—	BQ1
<a href="#">DEPT OF SOCIAL SERVICE</a>						—	—	CU1

# Questions?





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For more information, contact:

CHAD LANDRY, HOME PROGRAM MANAGER

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