

Aurora Financial FHA Refer Response Helpful Hints Checklist

FHA TOTAL SCORECARD — Refer response helpful tips prior to submitting to Aurora Financial

An underwriting recommendation of Refer indicates that the loan application must be analyzed by Aurora Financial DE underwriter and must be **manually** underwritten in accordance with FHA guidelines. A Refer recommendation also indicates that the loan does not meet one or more of the FHA eligibility requirements.

The FHA TOTAL SCORECARD analyzes the overall creditworthiness of the applicant based on a number of credit variables. Total Scorecard determines whether the borrower's credit and capacity for repayment of the mortgage is acceptable for approval.

REFER RESPONSE FOR CREDIT – ANALYZING THE CREDIT REPORT:

- _____ Are there any 30-,60- or 90-day late payments?
- _____ Are there any past due trade line accounts?
- _____ Are there any paid or unpaid collections?
- _____ Are there any public records such as BKs, judgments, tax liens or a foreclosure?
- _____ Are there any mortgage lates on either the current mortgage or previous mortgage(s)?
- _____ Are there any late payments or past dues on major trade lines?
(mortgages, auto loans, secured installments, boat loans)
- _____ Are there any late payments or past dues on minor trade lines?
(revolving or unsecured installments)
- _____ Are there any inquiries in the past 90 days?
- _____ Is there a minimal number of open, active trade lines? (fewer than four accounts)
- _____ Are there no satisfactory trade lines?
- _____ Are there only paid or unpaid collections or public records with no satisfactory trade lines?

If you checked one or more of the above credit issues, the likelihood of a Refer response is increased. At this point, your loan is not ready to be submitted to Aurora Financial underwriter. Obtain one or more of the following to include with your submission to the Underwriting department:

- Explanation of all major and minor derogatory credit accounts.
- Documentation showing that any past due trade lines are now current with borrower explanation.
- Documentation showing that any unpaid collections have been satisfied if borrower indicates they were paid. Borrower to explain.
- Documentation showing that any open judgments or tax liens have been satisfied. Borrower to explain.
- Documentation showing that BK 7 has been discharged two years or BK 13 has been open for more than 12 months. Borrower to explain.
- Provide current verification of rent if applicable.
- Borrower to explain all recent inquiries
- Obtain a full Residential Mortgage Credit Report to document current status of any inaccurate trade line account and/or include any satisfactory non-traditional trade lines with a 12-month history rating.

The borrower's explanation letter should include:

- Brief explanation of each derogatory trade line.
- Documentation of any loss of wages in the past two or more years and explanation of circumstances that caused the loss of wages.
- Documentation of any unexpected expenses in the past two or more years and explanation of circumstances and estimated amount of the expense(s).
- Documentation of any major medical situation that may have caused the derogatory rating.
- Indication of any payment arrangements made between any institution and the borrower on any outstanding collection, judgment or tax lien.

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The explanation and/or any additional documentation submitted to your Aurora Financial underwriter will greatly assist the underwriter in determining if the borrower is creditworthy for an FHA mortgage. It will increase the chances of a credit review approval and allow the underwriter to issue an approval letter subject to additional conditions based on the circumstances addressed in the borrower's explanation and/or additional documentation.

NOTE: Term of mortgage, ratios, assets and reserves may also have an impact on the FHA Total Scorecard credit decision. The borrower's credit score is not the determining factor in the underwriting credit review process.

REFER RESPONSE REGARDING CAPACITY FOR REPAYMENT – ANALYZING THE BORROWER'S RATIOS:

A Refer response can be the result of an excessive house ratio or debt ratio alone or combined with the borrower's creditworthiness.

_____ Does the house ratio exceed 31%?

_____ Does the debt ratio exceed 43%?

_____ Does the borrower have current derogatory credit trade lines, collections and/or public records?

_____ Does the borrower have any reserves that can be documented and /or liquidated. Refer to Findings for requirement.

_____ Is the borrower using his/her own funds?

_____ Is the borrower using down payment assistance from an approved DPA program?

_____ Are there seller contributions?

_____ Is there a combination of DPA, seller contributions and gift funds from another source?

When Total Scorecard issues a Refer response for excessive ratios, the following compensating factors must be reviewed and/or documented by the underwriter in order to justify loan approval with ratios that exceed the guideline percentage of 31/43.

- The borrower has successfully demonstrated the ability to pay housing expenses equal to or greater than the proposed monthly housing expense for the new mortgage over the past 12-24 months.
- The borrower makes a large down payment (10% or more) toward the purchase of the property or has low LTV if submitted as a refinance.
- The borrower has demonstrated an ability to accumulate savings and has a conservative attitude toward the use of credit.
- Previous credit history shows that the borrower has the ability to devote a greater portion of income to housing expenses.

- The borrower receives documented compensation or income not reflected in effective income, including food stamps and/or other similar public benefits.
- There is only a minimal increase in the borrower's housing expense.
- The borrower has substantial documented cash reserves (three months' PITI) after closing.
- The borrower has substantial non-taxable income.
- The borrower has a potential for increased earnings, as indicated by job training or education in the borrower's profession.
- The home is being purchased as a result of relocation of the primary wage earner, and the secondary wage earner has an established history of employment, is expected to return to work, and reasonable prospects exist for securing employment in a similar occupation in the new area. Documentation must be available to support.