

CHAPTER 3

MORTGAGE CREDIT ANALYSIS AND BORROWER APPROVAL

- 3-1 PURPOSE OF MORTGAGE CREDIT ANALYSIS.** Mortgage credit analysis is used to determine the borrowers credit and capacity to repay the mortgage, and to limit foreclosures or collection difficulties. See HUD Handbook 4155.1, Chapter 2 for complete mortgage credit underwriting requirements.
- 3-2 EQUAL CREDIT OPPORTUNITY.** The predetermined standards of acceptable risks must be applied equally to all borrowers, regardless of race, color, creed, religion, sex, marital status, age, or physical handicap.
- 3-3 CONFIDENTIAL NATURE OF CREDIT INFORMATION.** Sources must never be divulged, except as required by the contract or by law. All personnel with access to credit information must ensure that the use and disclosure of information from a credit report complies with the following:
- A. Title VIII of the Civil Rights Act of 1968
 - B. The Fair Credit Reporting Act, Public Law 91-508
 - C. The Privacy Act, Public Law 93-579
 - D. The Financial Privacy Act, Public Law 95-630
 - A. E. The Equal Credit Opportunity Act, Public Law 94-239 and 12 CFR Part 202
- 3-4 APPLICATION.** All borrowers must complete the loan application and all additional FHA documents. Except for nonprofit corporations that provide assistance to low- and moderate-income families, all applications must be in the name of one or more individuals. An application from a corporation, partnership, sole proprietorship, or trust also must name one or more individuals and must be analyzed on the basis of the individual, as well as the organization.

The lender must ask sufficient questions of the borrower to elicit a complete picture of the borrower's financial position, source of funds for the transaction, and intended use of the property. Additionally, the lender is responsible for verifying the identity of the borrower(s).

3-5 CREDIT REPORT AND VERIFICATIONS. Lenders must obtain and verify information with as much care as would be used if entirely dependent on the property as security. The credit report and verification forms must not pass through the hands of the borrower, a real estate agent, or other interested third party.

3-6 BORROWER APPROVAL OR REJECTION. The DE underwriter determines the creditworthiness of the borrower(s).

A. Approved Borrowers. Results of the analysis are recorded on the Mortgage Credit Analysis Worksheet (Form HUD-92900-WS/92900-PUR). Modification of the mortgage amount or approval conditions and necessary explanatory statements are entered under “Remarks.”

For HUD employee loans, FHA issues a Firm Commitment to the lender, which obligates FHA to insure the mortgage, provided all conditions are met. For DE cases, the lender's underwriter approves the borrower and authorizes closing.

1. **Notice to Borrower.** The lender is responsible for notifying the borrower of the approval, either in writing or verbally, immediately upon receipt of the underwriter's decision.

B. Rejection/Disapproval of Borrower. The following notices are required when an application is rejected:

1. **To Lender on FHA-Processed Cases.** FHA issues a Non-Endorsement Notice, Form HUD-59100, showing all reasons for ineligibility, plus any counterproposal to effectuate loan approval (e.g., a reduced mortgage amount).

2. **Notice to Borrower(s).** The lender must immediately deliver a copy of the Non-Endorsement Notice and, when required, an Equal Credit Opportunity Act Notice to the borrower.

Whenever a borrower is rejected for unacceptable credit characteristics on the basis of information contained in a credit report, the borrower must be notified and be given the name, address, and, where available, the telephone number of the credit reporting agency.

3-7 INVESTMENT PROPERTIES AND DWELLINGS FOR TWO OR MORE FAMILIES. Borrower's Contract with Respect to Hotel and Transient Use of Property, Form HUD-92561, must be submitted with the request for insurance endorsement if the loan is on investment property (if permitted) or a dwelling for two or more families.

A. Seven Unit in Proximity. **Qualified investor entities are limited to a financial interest (i.e., any type of ownership, regardless of type of financing) in seven rental dwelling units, when the subject property is part of, adjacent to, or contiguous to a property; subdivision; or group of properties owned by the investor. Each dwelling unit in two-, three-, and four-family properties counts toward the seven-unit limitation. The rental units in an owner-occupied two-, three-, or four-unit property also count toward this limitation. The lender is responsible for assuring compliance with this regulation (see 24 CFR 203.42 for additional information). See HUD Handbook 4155.1 for additional information on the seven-unit limitation.**

