



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-8000

ASSISTANT SECRETARY FOR HOUSING-
FEDERAL HOUSING COMMISSIONER

Date: January 31, 2013
To: All Approved Mortgagees
Mortgagee Letter 2013-05

Subject Manual Underwriting for Loans with Decision Credit Score Below 620 and Total Fixed Payments to Effective Income Ratio Exceeding 43.00%

Purpose This Mortgagee Letter revises the procedures for underwriting loans where the borrower has a decision credit score below 620 and the Total Fixed Payments to Effective Income (debt-to-income) ratio exceeds 43.00%. Transactions where the borrower has a decision credit score below 620 and the debt-to-income ratio exceeds 43.00% must be manually underwritten.

HUD expects that by the effective date of this Mortgagee Letter HUD's Technology Open To Approved Lenders (TOTAL) scorecard will be issuing scoring recommendations of Refer for loans where the borrower has a decision credit score below 620 and the debt-to-income ratio exceeds 43.00%. However, if the loan receives a scoring recommendation of Accept from HUD's TOTAL scorecard, the loan must be manually downgraded to a Refer scoring recommendation

Effective Date This Mortgagee Letter is effective for case numbers assigned on or after April 1, 2013.

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Affected Topic The topic summarized below is affected by this change in procedure. This change will be integrated into the On-Line TOTAL User Guide.

TOTAL User Guide

Chapter 2, Underwriting Requirements, Manual Downgrade
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**Summary –
FHA Guidance
for Manually
Underwritten
Loans**

Pursuant to Chapter 2 of the TOTAL User Guide, manual downgrades from an Accept to a Refer may be triggered by inaccuracies in credit reporting, eligibility issues, and for other reasons. To this list of conditions HUD is adding all loans where the decision credit score is less than 620 and the debt-to-income ratio exceeds 43%.

**Minimum
Decision Credit
Scores**

The minimum credit score requirements referenced in HUD Handbook 4155.1, Section 4.A.1.c. and the definition of the minimum decision credit score referenced in HUD Handbook 4155.1, Section 4.A.1.j remain in effect.

**Calculation of
Debt-to-Income
Ratio**

The calculation of the debt-to-income ratio as set forth in HUD Handbook 4155.1, Section 4.F.2 remains in effect. Refer to HUD Handbook 4155.1, Section 4.F.2.c for information on calculating the Total Monthly Fixed Payments to Effective Income ratio, which includes the total monthly housing payment as defined in HUD Handbook 4155.1, Section 4.F.2.b plus all other recurring monthly obligations as defined in HUD Handbook 4155.1, Section 4.C.4.b.

**Gross Effective
Income and
Qualifying
Ratios**

Refer to HUD Handbook 4155.1, Chapter 4 for information on calculating gross effective income, total monthly housing payment and other recurring liabilities, and qualifying ratios.

**Energy
Efficient
Mortgages**

Energy Efficient Mortgages where the borrower has a decision credit score below 620 and the debt-to-income ratio exceeds 43.00% must be manually underwritten. If the loan receives a scoring recommendation of Accept from HUD's TOTAL scorecard, the loan must be manually downgraded to a Refer scoring recommendation.

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Energy Efficient Mortgages (continued)

Refer to HUD Handbook 4155.1, Section 6.D for information on qualifying ratios for Energy Efficient Mortgages.

Note: While Energy Efficient Mortgages where the borrower has a decision credit score below 620 and the debt-to-income ratio exceeds 43.00% must be manually underwritten, borrowers may still be approved with a debt-to-income ratio of up to 45.00% without compensating factors. Compensating factors are only required for debt-to-income ratios over 45.00%.

Refinances of Borrowers in Negative Equity Position

Refinances of Borrowers in Negative Equity Position where the borrower has a decision credit score below 620 and the debt-to-income ratio exceeds 43.00% must be manually underwritten. If the loan receives a scoring recommendation of Accept from HUD's TOTAL scorecard, the loan must be manually downgraded to a Refer scoring recommendation.

Refer to Mortgagee Letters 2010-23 and 2012-5 for information on qualifying ratios for FHA's Refinance of Borrowers in Negative Equity Positions (Short Refinance) program.

Loans Must Be Scored Through TOTAL

While manual underwriting is required for loans with a decision credit score of less than 620 and a debt-to-income ratio greater than 43.00%, mortgagees must continue to score these loans through TOTAL, unless the loan is one of the following types of loans which do not utilize TOTAL Scorecard:

- Streamline Refinances
 - Home Equity Conversion Mortgages
 - Title I mortgages
 - Loans involving borrowers without credit scores.
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Loans Subject to All Manual Underwriting Requirements

As with any manually underwritten loan, loans with a decision credit score below 620 and a debt-to-income ratio in excess of 43.00% must be underwritten in accordance with all manual underwriting requirements. The alternative documentation requirements available for TOTAL scorecard "Accept/Approve" decisions as stated in HUD Handbook 4155.1 are not applicable.

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Loans Subject to All Manual Underwriting Requirements
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Compensating factors used to justify approval of mortgage loans with ratios that exceed benchmark guidelines, as defined in HUD Handbook 4155.1, Section 4.F., must be recorded on the Underwriter Comments section of Form [HUD-92900-LT](#), *FHA Loan Underwriting, and Transmittal Summary*. Any compensating factor used to justify mortgage approval must also be supported by documentation.

The CHUMS Identifier and the signature of the Direct Endorsement underwriter approving the loan must be recorded on the *Loan Transmittal and Underwriting Summary* (Form HUD-92900-LT) and *HUD/VA Addendum to Uniform Residential Loan Application* (Form HUD-92900-A, page 3). Mortgagees may not cite AUS CHUM Identifier on the Loan Transmittal and Underwriting Summary (HUD-92900-LT) or DE Approval (HUD-92900-A, page 3).

Information Collection

The information collection requirements contained in this document are pending approval by the Office of Management and Budget (OMB) under the Paperwork Reduction Act of 1995 (44 U.S.C. 3501-3520) and assigned OMB control number 2502-0059. In accordance with the Paperwork Reduction Act, HUD may not conduct or sponsor, and a person is not required to respond to, a collection of information unless the collection displays a currently valid OMB control number.

Questions

Please address any questions about the topics addressed in this Mortgagee letter to the FHA Call Center at 1-800-CALLFHA. Persons with hearing or speech impairments may reach this number via TDD/TTY by calling 1-877-TDD-2HUD (1-877-833-2483). For additional information on this Mortgagee Letter please visit www.hud.gov/answers

Signature

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