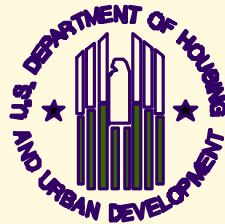




U.S. Department of Housing and Urban Development

Technology Open To All Lenders (TOTAL)

FHA TOTAL Scorecard





TOTAL Scorecard Overview

- What are the objectives and advantages?
- What are its unique features?
- What is the architecture?
- How does it work?
- What are the system and operational requirements?
- Who to contact?

What are the objectives and advantages?

- Assess FHA borrower creditworthiness
- Assist all lenders in the origination of HUD/FHA-insured mortgages
 - Reducing production costs (less documentation)
 - Saving time



What are the objectives and advantages?

- Quickly obtain an “Approve/Accept” or “Refer” decision
 - ➔ “Approve/Accept” decision reduces documentation requirements and offers credit policy waivers
 - ➔ “Refer” requires manual underwriting (but may result in reduced documentation)

What are the objectives and advantages?

- Improve access for:
 - low- and moderate-income borrowers
 - creditworthy borrowers with status requiring highly detailed analysis
 - other underserved populations/locations

What are the objectives and advantages?

- Quantify borrower evaluation
 - Feedback available to all borrowers
 - Help borrowers understand “Refer” decision and next steps to improve credit worthiness

What are the objectives and advantages?

- Enhance HUD/FHA's ability to
 - Assess and manage risk
 - Provide actuarial soundness in insurance funds
- Standardize the exchange of data for the mutual benefit of FHA and FHA's business partners



What are the objectives and advantages?

- Integrate automated underwriting systems into FHA's existing processes and workflow, including mortgage insurance endorsement processing
 - ➔ Prefill data on the FHA Connection screens
 - ➔ Improve data quality

What are the objectives and advantages?

- Consistent Scorecard decisions
- Phase out third-party FHA Scorecards
- Cost effective
 - Credit data passed through AUS to Scorecard
 - No charge for a call
 - Allows multiple calls per loan
 - Available for prequals or finals

What are its unique features?

- Borrower Feedback Report
 - Mathematical detail
 - Describes how applicant score is determined
 - Explains how the borrower can improve credit worthiness

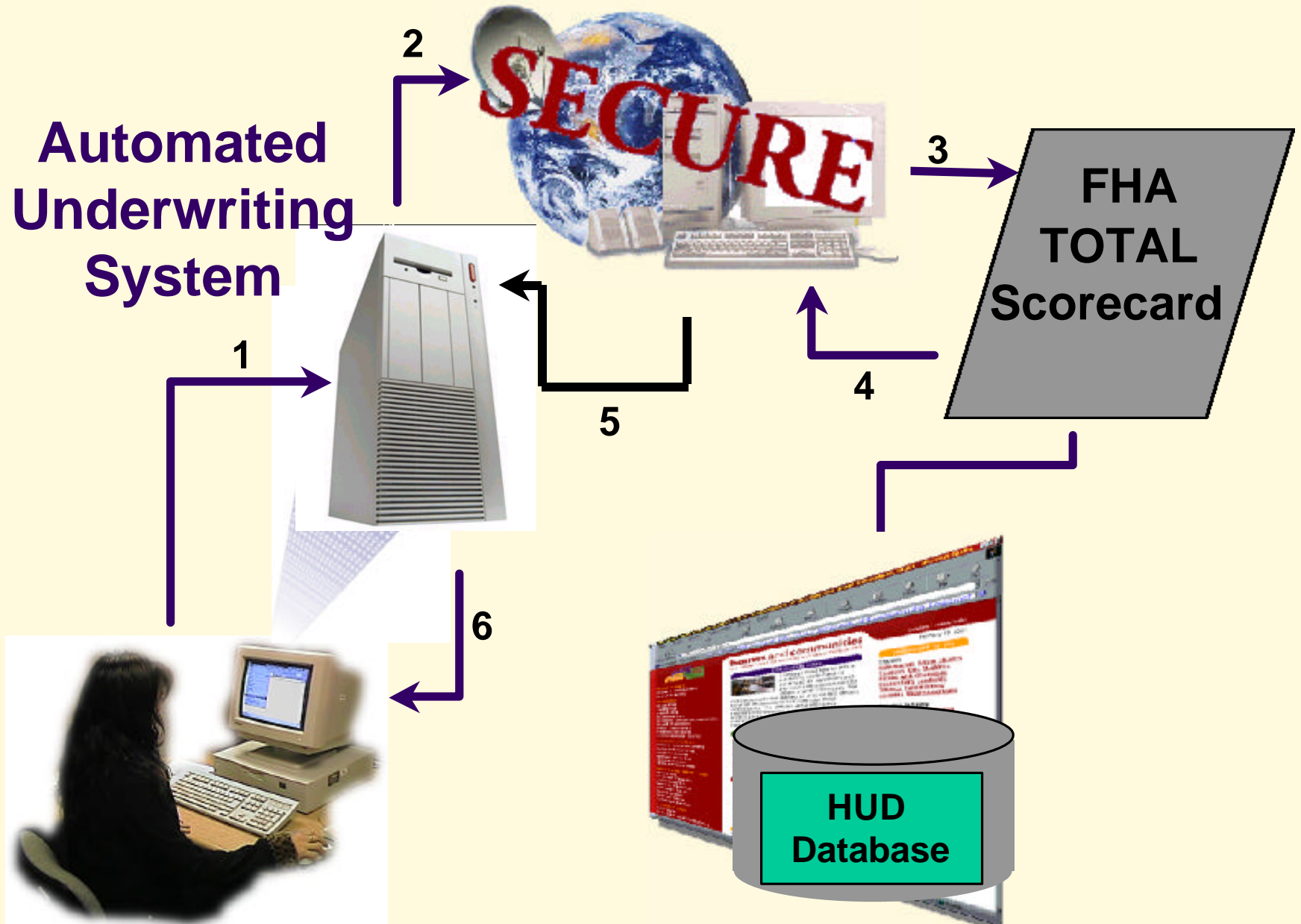
What are its unique features?

- Relevant Scorecard factors displayed
 - Applicant's credit score(s)
 - Monthly housing-to-expense ratio
 - Number of monthly payments in reserve
 - Loan-to-value ratio
 - Loan term

What is the Architecture?

- Common system of communication
 - Built on Open Standards
 - Internet-based solution
 - Uses SSL for data encryption
 - Uses XML for data transfer
 - Uses LDAP for user authentication
- 24 x 7 availability

TOTAL Scorecard Architecture



How does it work?

- Scorecard “called” by Automated Underwriting System (AUS)
- HUD-developed algorithm
 - Accuracy
 - Precise prediction
 - Allows up to five borrowers
 - Applies some review rules

How does it work?

- Scorecard elements include
 - Credit history
 - Loan-to-value ratio
 - Borrower assets/Cash reserves
 - Payment-to-income ratio
 - Loan term

How does it work?

- Application data entered at Lender's desktop
- Transmit to Scorecard
- Scorecard evaluates, recommends, communicates to Lender
- **Decision Generated**
 - “Approve/Accept” or “Refer”

How does it work?

- Lender generates Borrower Feedback Report
- Data prefills on FHA Connection Insurance Application screen
- Lender decides based on
 - TOTAL Scorecard report
 - Complete loan file
 - Manual downgrades

FHA Borrower Feedback Report

IMPORTANT INFORMATION ABOUT BORROWER CREDIT ASSESSMENT

“Underwriting” is the process used by lenders to evaluate a potential borrower’s ability to repay a mortgage. Lenders now use “automated underwriting” that combines a statistical assessment (computer-based) and the traditional FHA manual review of a borrower’s application to evaluate potential FHA borrowers. Automated underwriting systems (AUS) assist lenders in the underwriting process by producing a recommendation based on a borrower’s *credit report information and mortgage application information* (combined, referred to as “AUS Factors”). FHA has developed a computer-based assessment specifically designed to evaluate FHA mortgages (referred to as “FHA’s Mortgage Scorecard,” or “the Scorecard”). The Scorecard only includes factors that have been statistically demonstrated to reliably predict the likelihood of borrower default. The Scorecard does not consider the borrower’s race, national origin, age, gender, religion, marital status, employment, or geographic location; and most importantly *the Scorecard is objective*, allowing FHA borrowers to be evaluated by the same set of factors.

The FHA Mortgage Scorecard recommendation is taken into consideration by the lender, but it cannot be used to approve or deny an application. The final decision to approve or deny your FHA mortgage loan application is always made by your lender. The Scorecard produces one of two recommendations, Accept or Refer. An “Accept” indicates that based on historical experience, the lender may approve the borrower’s credit with reduced documentation. A “Refer” means the lender should review the borrower’s credit following FHA’s guidelines (traditional FHA manual review). “Manual underwriting” means that a credit evaluator at the lender site (called an “underwriter”) reviews the application. The underwriter will assess the information provided by the Scorecard and additional information pertaining to the borrower’s credit. For example, a borrower with a history of late payments would be given the opportunity to explain why they occurred. The underwriter can also consider the particular circumstances of each borrower that are not accounted for in the Scorecard, such as a borrower’s payment history for rent, utilities, or phone service. Historical data show that the majority of loans that receive a “Refer” are insured by FHA after manual underwriting.

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FHA Borrower Feedback Report

- **INSTRUCTIONS TO THE BORROWER ABOUT IMPROVING CREDITWORTHINESS**
- **Borrowers can increase their overall creditworthiness by managing credit wisely. Maintaining a good credit history over time can lead to higher credit scores, which in turn can increase the availability of credit to those borrowers. Borrowers can improve their credit history by following these steps:**
 - **Pay Bills on Time**
 - **Keep Credit Card Balances Low**
 - **Make Sure Credit Reports are Accurate (contact Experian, Equifax, or Trans Union for a copy)**
 - **Obtain Assistance in Managing Debt through Credit Counseling Agencies**

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RELEVANT SCORECARD FACTORS

Borrower Information		Jane Doe – 999-99-9999 999 Maple Street New York, NY 99999	John Doe – 000-00-0000 999 Maple Street New York, NY 99999
Scorecard Factors	Value	Explanation	
1. Credit Score(s) <i>Primary Borrower</i> <i>Co-borrower 1</i> <i>Co-borrower 2</i> <i>Co-borrower 3</i> <i>Co-borrower 4</i>	### ### ### ### ###	The credit score is the most important factor considered in the underwriting process. It provides a “summary snapshot” of your credit history at a particular point in time, based on the information in your credit report. The number is calculated by a computer model developed by Fair, Isaac and Co., Inc, and is called a FICO score. It relies on our past performance in managing debts and financial obligations to predict the likelihood that you will repay additional debts, such as the mortgage loan for which you have applied. The Scorecard rewards higher scores. The average FICO score for FHA purchase loans insured using a mortgage scorecard between January and June of 2000 was approximately 630. ¹ Fair, Isaac and Co., Inc, has recently released detailed information surrounding borrower FICO scores that can be accessed at http://www.fairisaac.com .	
2. Monthly Housing Expense to Income Ratio		This ratio represents the percentage of your total monthly income that would be taken up by the mortgage payment. The scorecard rewards a lower percentage. An increase in monthly income or a decrease in monthly housing expense would decrease this percentage. This is a very important factor. The monthly housing expense to income of the average FHA borrower is approximately 21%. ²	
3. Number of Monthly Payments in Reserve		This number represents the number of monthly mortgage payments you could make from your total cash/resources remaining after you've purchased your home. This number is calculated by dividing (a) the total dollar amount of cash and other readily available (liquid) assets you have left after buying your home by (b) your monthly housing expense. This factor is very important. The average FHA borrower has approximately 2 monthly payments in reserve at loan closing. ²	
4. Loan-to-Value (LTV) Ratio		LTV reflects the amount of your mortgage as a percent of the value of the home. It is obtained by dividing the mortgage amount by the home's value. For example, if a borrower took out a \$95,000 mortgage to buy a \$100,000 home, the LTV ratio would be 95%. The higher the borrower's downpayment, the lower the LTV ratio. The average FHA borrower has an LTV ratio of approximately 95%. ²	
5. Loan Term (in months)		The loan term (sometimes called the amortization period) refers to the length of time you have to pay off your mortgage. The loan term is usually expressed as a number of months (i.e., 30 year mortgage has a 360 month term). Shorter terms are available that enable you to build equity in your home faster. Research has shown that mortgages to borrowers who choose to finance their mortgages over shorter terms and build equity in their homes faster tend to perform better than those with longer terms.	

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1. Information based on data collected from Scorecards developed by third-party vendors and approved by the FHA.
2. Data used for performing averages was comprised of purchased loans insured from January through June of 2000.

What are the system and operational requirements?

- Automated Underwriting System (AUS)
 - Performs FHA eligibility rules
 - Displays TOTAL Scorecard results and errors
 - Generates the Borrower Feedback Report

What are the system and operational requirements?

- Use Agreement: Users agree to
 - Comply with the TOTAL Scorecard technology standards
 - Other terms and conditions of Use Agreement governing the use of the Scorecard

Who to contact?

- Industry Working Group established
 - Membership of both small and large lenders
 - Interested participants contact HUD at e-mailbox: hsng_au@hud.gov