

Manual Underwriting is essentially the "human-led" version of the mortgage approval process.

While most modern loans are processed by an **Automated Underwriting System (AUS)** like Fannie Mae's "Desktop Underwriter," certain borrowers don't fit into the computer's rigid "Yes/No" boxes. In these cases, a human underwriter must manually review every document to build a narrative of why the borrower is a good risk.

1. Who Needs Manual Underwriting?

This process is the primary path for "nontraditional" borrowers, including:

- **The "Credit Invisible":** People who live debt-free and have no FICO score.
 - **Self-Employed Individuals:** Those with complex tax returns or a recent (but explained) dip in business income.
 - **Recent Life Events:** Borrowers who had a bankruptcy or foreclosure in their past but can prove it was due to a one-time "extenuating circumstance" (like a medical crisis).
 - **High DTI Borrowers:** Those whose debt-to-income ratio exceeds 43% but who have massive cash savings.
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2. The "Nontraditional Credit" Approach

If you don't have a credit score, the underwriter looks for a **12-month history** of on-time payments for items that don't usually show up on a credit report.

Source	Documentation Required
Housing (Rent)	Cancelled checks or a formal "Verification of Rent" (VOR) from a landlord.
Utilities	12 months of statements from electric, water, or gas companies.
Communication	Cell phone, internet, or cable TV bills.
Insurance	Monthly premiums for auto, life, or health insurance (not paid by an employer).
Other	School tuition, childcare payments, or even a documented history of regular savings

	deposits.
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3. Compensating Factors: The Scale-Tipper

Since these loans carry higher perceived risk, underwriters look for **Compensating Factors**—strengths in one area that offset a weakness in another.

- **Low Payment Shock:** If your new mortgage payment is nearly the same as your current rent (an increase of less than **5% or \$100**), it proves you are already used to the expense.
- **Significant Cash Reserves:** Having **3–6 months** of mortgage payments sitting in a liquid account after the house closes.
- **High Residual Income:** Demonstrating that after all bills are paid, you still have a large amount of "breathing room" cash each month.
- **Large Down Payment:** Putting down **20% or more** gives the bank more security (less "Loan-to-Value" risk).

4. The Trade-Offs: Manual vs. Automated

Feature	Automated (AUS)	Manual (Human)
Speed	Minutes to Hours.	Days to Weeks.
Flexibility	Rigid; "Black or White" logic.	Flexible; considers "Grey areas."
DTI Limits	Often allows up to 45–50%.	Usually capped strictly at 36–43% .
Documentation	Standardized.	High; Expect many "Letters of Explanation."

Summary for the Borrower

If you are heading into a manual underwrite, the key is **transparency**. A computer doesn't care *why* you didn't pay a bill three years ago, but a human underwriter does. Providing a sincere, documented explanation for financial hiccups can often turn a "Deny" into an "Approve."

Would you like me to draft a sample "Letter of Explanation" for a common issue like a

gap in employment or a large unexplained deposit?