RESIDENTIAL MORTGAGE UNDERWRITING GUIDELINES

Standards for Credit Risk Evaluation, Income Assessment, Asset Verification, and Property Review

This manual outlines underwriting principles for evaluating residential mortgage loan applications. The objective is to promote responsible lending practices, regulatory compliance, and consistent credit decisions. Guidelines may be updated periodically to reflect investor overlays, regulatory developments, and market conditions.

SECTION 1 – CREDIT RISK STANDARDS

- Minimum representative credit score requirements: Conventional (640), FHA (580), VA (600 lender overlay), USDA (640), Jumbo (700+).
- Borrowers below standard thresholds may be considered with strong compensating factors such as substantial reserves, low debt ratios, or long-term housing stability.
- Bankruptcy seasoning: Chapter 7 (4 years conventional, 2 years government), Chapter 13 (2 years from discharge), subject to documented re-established credit.
- Foreclosure or deed-in-lieu events require 3–7 year waiting periods depending on loan program and documented hardship circumstances.
- Recent mortgage lates within 12 months are generally not permitted for owner-occupied transactions.
- Outstanding judgments and tax liens must be satisfied or documented with acceptable repayment agreements.

SECTION 2 – INCOME ANALYSIS & EMPLOYMENT STABILITY

- Minimum two-year employment history in the same field or line of work is generally required.
- Written and verbal verification of employment must confirm current employment status prior to closing.
- Self-employed borrowers must provide two years of personal and business tax returns along with year-to-date financial statements.

- Variable income (bonus, commission, overtime) requires a two-year history and will be averaged unless declining trends warrant adjustment.
- Rental income is typically calculated at 75% of documented gross rent to account for vacancy and expenses.
- Debt-to-Income (DTI) benchmarks: 28% housing ratio and 45% total DTI, with flexibility up to 50% for strong overall profiles.

SECTION 3 – ASSET REVIEW & LIQUIDITY REQUIREMENTS

- Minimum reserve requirements vary by occupancy and property type; primary residences typically require 2 months of PITI.
- Investment properties require at least 6 months of reserves per financed property.
- All funds used for closing must be sourced and seasoned with at least 60 days of account history.
- Large deposits must be explained and documented; undocumented funds may be excluded from available assets.
- Gift funds are permitted from eligible donors with a fully executed gift letter and documented transfer.
- Retirement and brokerage accounts may be discounted for volatility and tax exposure when used for qualifying.

SECTION 4 – COLLATERAL & PROPERTY ELIGIBILITY

- All properties must be appraised by a licensed appraiser using standardized reporting formats.
- Appraisals must demonstrate marketability, comparable sales support, and adequate collateral coverage.
- Maximum Loan-to-Value (LTV) limits vary: up to 97% for primary residences, 90% for second homes, and 85% for investment properties.
- Properties must meet minimum safety, structural, and habitability standards prior to closing.
- Condominium projects must meet occupancy, financial stability, and insurance requirements.
- Flood insurance is required for properties located in designated Special Flood Hazard Areas.

SECTION 5 – RISK MANAGEMENT & EXCEPTIONS

- Exceptions to standard policy require documented rationale and secondary review approval.
- Underwriters may impose additional conditions when layered risk factors are present.

- Occupancy misrepresentation or undisclosed liabilities may result in loan denial.
- All underwriting decisions must comply with applicable federal and state regulations including TILA, RESPA, ECOA, and Dodd-Frank provisions.

DISCLAIMER: This document is intended as a model underwriting framework for educational and policy drafting purposes. Actual lending requirements may vary by institution, investor, and regulatory authority. Policies are subject to periodic revision without prior notice.