

Chapter 5. Mortgage Credit Analysis and Borrower Approval

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Chapter 5. Mortgage Credit Analysis and Borrower Approval

1. General Information on Mortgage Credit Analysis

Introduction This topic contains general information on mortgage credit analysis, including

- the purpose of a mortgage credit analysis
 - the importance of verifying a borrower's credit information, and
 - verifying a borrower's financial position.
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**4155.2 5.1.a
Purpose of a
Mortgage
Credit Analysis**

A mortgage credit analysis is used

- to determine
 - a borrower's credit and his/her capacity to repay the mortgage
 - whether or not there are sufficient funds to close, and
- to limit foreclosures or collection difficulties.

Reference: For additional information about completing a mortgage credit analysis, see [HUD 4155.1 4.C.](#)

**4155.2 5.1.b
Verifying
Borrower
Credit
Information**

Lenders must obtain and verify a borrower's information with as much care as would be taken if the mortgage was entirely dependent on the property as security.

The credit report and verification forms *cannot* pass through the hands of

- the borrower
 - a real estate agent, or
 - another interested third party.
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1. General Information on Mortgage Credit Analysis, Continued

4155.2 5.1.c Verifying a Borrower's Financial Position

The lender must

- verify a borrower's identity, and
- ask sufficient questions of the borrower in order to get a complete picture of
 - his/her financial position
 - the source of funds for the mortgage transaction, and
 - the intended use of the property.

References: For more information on

- borrower credit analysis, see [HUD 4155.1 4.C](#)
 - borrower income, see [HUD 4155.1 4.D](#) and [HUD 4155.1 4.E](#)
 - acceptable sources of borrower funds, see [HUD 4155.1 5.B](#), and
 - borrower's completion of the loan application, see [HUD 4155.2 3.C.2.b](#).
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2. Borrower Approval or Rejection

Introduction This topic contains information on approving or rejecting a borrower for a mortgage, including

- the DE underwriter responsibility for determining if a borrower is creditworthy
 - actions taken for approved borrowers
 - lender notification to approved borrowers
 - requirements when the borrower is rejected on the basis of credit report information, and
 - required notifications for rejected borrowers.
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**4155.2 5.2.a
DE
Underwriter
Responsibility
for
Determining if
a Borrower Is
Creditworthy** The DE underwriter is responsible for determining the creditworthiness of the borrower(s), including analyzing a borrower's overall pattern of credit behavior.

Reference: For guidelines on analyzing a borrower's credit, see [HUD 4155.1 4.C.1.](#)

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2. Borrower Approval or Rejection, Continued

4155.2 5.2.b Actions Taken for Approved Borrowers

When a borrower is approved, the DE underwriter

- records the results of the credit analysis on the [HUD-92900-LT](#)
- enters any modification of the mortgage amount or approval conditions under “Underwriter Comments” on the form, and
- approves the borrower and authorizes closing, if the case is a DE case.

Note: If the case involves a HUD/FHA employee loan

- the lender submits the complete underwritten loan application to FHA prior to closing, and
- FHA issues a Firm Commitment to the lender, which obligates FHA to insure the mortgage.

Reference: For more information on loans for HUD/FHA employees, see [HUD 4155.2 3.B.](#)

4155.2 5.2.c Lender Notification to Approved Borrowers

The lender is responsible for notifying the borrower of the approval, either in writing or verbally, immediately after receiving the underwriter’s decision.

4155.2 5.2.d Requirements When a Borrower Is Rejected on the Basis of Credit Report Information

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

Note: This is a requirement of the Fair Credit Reporting Act (FCRA).

Reference: For more information on the FCRA, see [HUD 4155.2 1.B.4.](#)

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2. Borrower Approval or Rejection, Continued

**4155.2 5.2.e
Required
Notifications on
Rejected
Borrowers**

When a borrower's application is rejected, the following notifications are required:

- FHA issues to the lender [HUD- 59100](#), *Mortgage Insurance Certificate/Non-Endorsement Notice*, showing all reasons for ineligibility, plus any counterproposal to effectuate loan approval (such as a reduced mortgage amount), and
- the lender must immediately deliver to the borrower
 - a copy of the HUD-59100 notice, and
 - when required, an Equal Credit Opportunity Act (ECOA) notice.

Reference: For more information on the ECOA, see [HUD 4155.2 1.B.5](#).

3. Term of the Firm Commitment or Underwriter's Approval

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4155.2 5.3.a
Term of the
Firm
Commitment or
Underwriter's
Approval of the
Borrower

The term of the firm commitment or underwriter's approval of the borrower is 90 days or the remaining life of the Conditional Commitment, VA CRV or underwriter's approval of the property, as appropriate, whichever is greater.
