

# chfa risk information score card



chfa

your road home

Effective May 1, 2011



# chfa risk information score card (chfa risc)



## faqs

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# chfa risk information score card (chfa risc)



## faqs

### general questions

#### applicant \$1,000 minimum financial investment – cash

When an applicant only has cash saved at home for the minimum financial investment, we will follow FHA guidelines for verifying the money as an acceptable source of funds. Funds that meet these guidelines will not have to be seasoned for 60 days.

#### 4155.1 5.b.2.d (1.31.11) verifying cash saved at home

Verifying the cash saved at home assets requires the borrower to explain in writing

- how the funds were accumulated, and
- the amount of time it took to accumulate the funds.

The lender must determine the reasonableness of the accumulation, based on the

- time period during which the funds were saved, and
- borrower's: income stream, spending habits, documented expenses, and history of using financial institutions.

**Note:** Borrowers with checking and/or savings accounts are less likely to save money at home than individuals with no history of such accounts.

#### co-applicant has no credit score

Every CHFA applicant has to have either acceptable credit scores or acceptable alternative credit. If one applicant has a credit score of 620 or higher and a co-applicant has no credit score (and has an alternative credit report developed), and the lender received an AUS approval, the lender does not have to complete a CHFA RISC. However, if the loan is downgraded to a manual underwrite or is otherwise required to complete a RISC, e.g. DTI requirements, then the applicants must pass RISC.

#### alternative credit reports

**q** *Must co-applicants who do not have credit scores submit alternative credit reports?*

**a** Yes. Even if the applicant has a credit score and the loan received an AUS approval, the co-applicant must have an alternative credit report developed. If the lender is not able to develop an alternative credit report for the co-applicant following applicable insurer/guarantor guidelines, contact CHFA for a possible exception (on a case by case basis) otherwise the loan cannot advance.



# chfa risk information score card (chfa risc) faqs

## manual underwrite

**q** *My underwriter has downgraded my loan from an AUS approve to a manual underwrite, because of disputes on a credit report. Do I have to do CHFA RISC?*

**a** Yes. Any downgrade for any reason requires CHFA RISC to be completed.

**q** *When is alternative credit considered a manual underwrite?*

**a** When the applicant or applicants for the loan have **only** alternative credit reports you have to complete the CHFA RISC and have the loan manually underwritten.

## consumer credit counseling services (cccs)

**q** *My applicant is in CCCS. How does that affect the CHFA RISC?*

**a** CCCS does not have an impact on the CHFA RISC. Credit scores already reflect any degradation in credit history by the applicant's decision to participate in CCCS.

## late payments on revolving debt

**q** *How do late payments on revolving debt affect the CHFA RISC?*

**a** Late payments on revolving debt do not, at this time, impact the CHFA RISC.

## specific chfa risc questions

### employment – lines a and b

**q** *Do I have to verify a five-year employment history in the same line of work?*

**a** Yes, by sending to CHFA the Verification of Employment (VOE) forms in the CHFA Compliance file for the full five (5) years.

### debt to income ratio (dti) – line c

**q** *If I use a MCC to qualify for a first mortgage loan, in accordance with insurer/guarantor guidelines, may I use the tax credit as income to calculate the DTI ratio when scoring the CHFA RISC?*

**a** Yes, so long as the AUS correctly reflects the DTI and your underwriter has underwritten the loan in accordance with insurer/guarantor guidelines, you may use the reduced DTI when scoring the CHFA RISC.

# chfa risk information score card (chfa risc)

## faqs

### payment shock– line d

- q** *May I use the Verification of Rent (VOR) to calculate payment shock when the rent payments cannot be verified, e.g. cash payments to a parent?*
- a** No. You have to be able to verify rent payments in accordance with the applicable insurer/guarantor guidelines to calculate payment shock.
- q** *I have an applicant in the armed forces or who recently left the armed forces and was living in base housing. Can I count Basic Allowance for Housing (BAH) when calculating payment shock?*
- a** Yes. Provide documentation with the Compliance file. You can document a rental history in a similar manner.
- q** *I have an applicant in the armed forces and living in barracks who did not get the BAH, but will get it once the applicant purchases a home. May I count this when calculating payment shock?*
- a** Yes. The loan officer must comment on the CHFA RISC that a copy of the BAH rate sheet is provided showing the amount of the future BAH with the CHFA RISC.
- q** *I have an applicant who has been living with parents for the past three (3) months. Prior to that my applicant was renting for over two years at \$1,700 a month. My applicant cannot prove that rent payments were made to the parents, since they were paid in cash. May I use the \$1,700 rent that I can verify towards payment shock?*
- a** No. However, you can use an average of the last twelve (12) months to determine payment shock (three months at \$0 + nine months of \$1,700 divided by 12 months = \$1,275).

### reserves – applicant minimum financial contribution – line e

#### seasoning of reserves and applicant minimum financial contribution

The applicant's own funds must be verified for reserves and/or the applicant's minimum financial contribution. This is done by using the insurer/guarantor guidelines, e.g. a tax refund or paycheck is the applicant's own funds, money given by a family member has to be seasoned for 60 days in order to become the applicant's own funds. Only actual documented funds received, not anticipated, may be used for reserves.

### mortgage/rental payment history – line f

- q** *How do I show rental history for someone who has been living with his/her parents?*
- a** Use a Verification of Rent (VOR) signed by the parents showing the amount of rent paid. If the applicant did not pay rent, show zero in the rent amount. Lender must be able to document rent payments by cancelled checks.
- q** *I have an applicant who has three times of being 30 days late on his former mortgage loan payment within the last 13-24 months. Is there any way the applicant can advance?*
- a** No. You cannot exceed two times being 30 days late or one time being 60 days late within the last 13-24 months.

# chfa risk information score card (chfa risc) faqs

## collections, judgments, charge-offs, and tax liens – line g

**q** *What if an applicant has medical collections as well as non-medical collections? What is the applicant's score -1, -2, or -3?*

**a** The applicant's score is -2. The maximum number of points an applicant can receive in any row is +2 or -2.

## collections, judgments, charge-offs, and tax liens – more details

- Use the date of the credit report to calculate time frames.
- Applicants who have non-medical collections (unless they are less than \$100 in aggregate), judgments, charge-offs, or tax liens within the previous 12 months cannot advance, regardless of being paid off or not.
- Applicants who have non-medical collections, judgments, charge-offs, or tax liens within the previous 13-24 months cannot advance **if** the total original balances during that time frame exceeds \$2,000 in aggregate.
- You can use the oldest or opening date to determine how long the collection, judgment, or tax lien has been open, since a new trade line is established when these items occur.
- Accounts settled for less than the full amount, Profit and Losses, and Charge-offs also must be scored in Line g. If the credit report is not clear on the charge-off date or amount on Accounts settled for less than the full amount, Profit and Losses, or Charge-offs, the lender must secure proof of the date and amount of those actions from the creditor or through a credit report update.
- Some creditors sell collection accounts to other creditors. If the lender can provide verification that a collection account that appears to have been originated recently was in fact originated previously, use the oldest creditor and collection account date.
- Some judgment accounts are placed as a result of a prior collection account. If the lender can provide verification that a judgment account that appears to have been originated recently was in fact originated previously through a collection account, use the oldest creditor and collection account date.

## tips for reviewing credit reports:

- Try out our Lender Collection and Judgment Worksheet, or
- Write down the credit report date and the date 24 months previous.
- Look for collections, judgments, charge-offs, or tax liens within that timeframe.
- List medical collections, judgments, charge-offs, and tax liens dates in one column.
- In separate column, list any non-medical collections, judgments, charge-offs, tax liens dates and dollar amounts.
  - Verify that none of the non-medical items occurred in the most recent 12 months (unless there are collections totaling less than \$100 in aggregate); if they did then the applicant cannot advance.
  - Total all of the original collection, judgment, charge-offs, or tax lien dollar amounts to confirm that the aggregate amount does not exceed \$2,000. If they do, the applicant cannot advance.

## bankruptcy – line h

**q** What date do you use to determine length of time from a bankruptcy?

**a** Use the most recent discharge or dismissed date.

## foreclosure – line i

**q** I have an applicant who had a repossession of a mobile home that was his primary residence. Is this accounted for under the Foreclosure or under the Collection and Judgment section?

**a** Primary residences, even when chattel property, e.g. a mobile home, is accounted for under the Foreclosure section. Travel trailers or other chattel properties that were not primary residences are accounted for under the Collection and Judgment section.

## additional applicant down payment – line j

- Additional down payment funds can be the applicant's own funds or gift funds. Funds from subordinate debt, even from approved down payment providers, cannot be used to receive additional CHFA RISC credit.
- The base loan amount of the CHFA **First** Mortgage Loan must be reduced to reflect the additional down payment. Reduction of the Second Mortgage Loan amount is not acceptable.
- Applicants with no CHFA Second Mortgage Loan must contribute the maximum required down payment **plus** the Additional Applicant Down Payment.

## example – additional applicant down payment

Sales price	\$100,000
FHA Base loan	\$96,500
CHFA RISC +2 requires additional	\$3,000
Reducing base loan to base	\$93,500
x 1.0 (upfront MIP)	\$935
Full Loan	\$94,435

# chfa risk information score card (chfa risc) faqs

## chfa sectioneight<sup>sm</sup> risc variances (only for chfa sectioneight-approved lenders)

DU and LP cannot handle the offset payment method used on CHFA SectionEight loans; therefore all SectionEight loans have to be manually underwritten. CHFA RISC guidelines require all manually underwritten loans to be run through the CHFA RISC. This has adversely impacted CHFA SectionEight applicants who have credit scores in excess of 620 who would have received an approval under an automated underwriting finding.

CHFA SectionEight applicants with credit scores 620 or greater do not have to be run through the CHFA RISC. However, if the loan is downgraded to a manual underwrite or is otherwise required to complete a RISC, e.g. DTI requirements, then the applicants must pass RISC.

The calculation for reserves for CHFA SectionEight applicants who have to be run through CHFA RISC is as follows:

- +2 Points : 3 months applicant's portion of the mortgage payment **or** \$500, whichever is greater.
- +1 Points: 2 months applicant's portion of the mortgage payment **or** \$250, whichever is greater.
- 0 Points: 1 month applicant's portion of the mortgage payment **or** \$100, whichever is greater.

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