MITIGATING FACTORS FOR SUBPRIME AND NONTRADITIONAL LOANS

For subprime and nontraditional loans originated after July 10, 2007 to be considered eligible collateral, an institution must demonstrate that there are adequate mitigating factors to offset the risk and to support the lender's underwriting decision and the borrower's ability to repay the loan.

Mitigating factors are the strengths of the loan that offset the weakness of a subprime borrower or nontraditional loan product.

There is no magic number to the number of mitigating factors a loan may need. Some loans may have multiple mitigating factors. Others may have just one mitigating factor; however, the strength of that one factor must be strong enough to support the loan approval.

The following sections list a few examples of mitigating factors:

Loan Structure

- Rate reduction/ Payment reduction
- Loan provides for converting a variable rate to a fixed rate offering a predictable payment
- Loan provides for converting an interest only loan to an amortizing loan within a reasonable timeframe
- Loan provides for converting a Pay Option ARM loan to a fixed rate amortizing loan within a reasonable timeframe
- Loan has converted from an interest only loan to a fixed rate loan
- Full documentation loan

Borrower

- Verified liquid assets (i.e., marketable securities, cash, bonds, and 401-K withdrawal – typically 70% after taxes and early withdrawal penalty)
- For purchase transactions, the borrower made a substantial down payment or had large cash reserves remaining after closing costs
- Cash reserves (6 months housing payment verified by borrower bank statements or verification of deposits from all sources)
- Residential stability (10 years or greater)
- Borrower finances indicated an established or improving savings pattern before the loan origination date which can be verified by bank/account statements or verification of deposits from all sources

Credit Factors

- Acceptable payment history of prior mortgage on credit report
- Primary wage earner credit score above 660
- Satisfactory repayment history of all loans with the Member institution
- Temporary circumstances beyond borrower’s control that have since been removed and proof exists in the loan file that circumstances have been removed; i.e., divorce, medical issues, etc., have been resolved
- Borrower’s credit reports and Member institution’s payment history indicates that borrower is paying debts as agreed after resolving credit issues
- Improving history of borrower’s use of credit per credit reports for a minimum of 2 years (e.g., open revolving/installment credit should show reducing balances and no new accounts opened during the 2 years period of time)
- Limited use of credit

Employment Factors

- Employment in high-demand Industry (e.g., nursing, engineering, education, etc.)
- Tenure with current employer exceeding 5 years (self employed business exceeding 5 years)
- Verification of employment, most current pay stubs, or Member institution credit approval indicates that the borrower obtained new employment or was elevated to a different position at a higher pay rate before the loan origination date

Property

- LTV is no greater than 50% at origination provided the Member institution used a certified appraisal

Other

- Guarantor (of the loan) has verified assets, credit and DTI