Understanding Credit Reports & Credit Scoring

Credit 101
March 2017
Overview & Course Objectives

Credit Reports & Scoring

Credit Reports & Scoring are designed to help individuals understand their role and responsibilities when viewing credit reports. It will prepare Mortgage Loan Originators with the required knowledge in order to successfully analyze a borrower's credit report. You will obtain a clear understanding of the types of credit reports and how to access these reports. You will also have an understanding of all credit reporting and nontraditional credit compliance guidelines.

Upon completion of this course, attendees will be able to effectively:

– Understand Credit Report Types
– Review and Analyze Credit Reports
– Obtain a clear understanding of Credit Scoring Basics
– Understand Agency Guidelines
– Gain knowledge of the legal requirements of FICO® Score
Session Overview

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The Credit Report

A credit report is a record of the borrower’s credit activities. The report allows you to review the borrower’s current liabilities and their payment history.

There are two different types of credit reports typically used in the mortgage industry:

- An in-file credit report is credit data received directly from a national credit repository/bureau. The information is not manually verified. It is verified via a process at each bureau when receiving data.

- A tri-merge credit report is obtained from a credit reporting agency and contains data collected from three national credit repositories/bureaus.
Requesting The Credit Report

Make sure when you order any type of credit report you:
- Get the complete legal name of the borrower
- Use the correct spelling of both the first and last name
- Identify any alias the borrower may have
- Confirm whether the borrower uses any generation suffix (Jr., III…)
- Obtain a previous address if the borrower has been at the current address for less than 2 years

Only businesses or individuals with a “permissible purpose” can access a consumer’s credit report. Consumers must be fully aware that their credit will be accessed and have granted permission to do so.

Any person who knowingly or willfully obtains a consumer report from a consumer reporting agency under false pretenses, or any officer or employee who knowingly or willfully provides information concerning an individual from the agency’s files to a person not authorized to receive that information shall be fined or imprisoned not more than 2 years, or both.

Follow your company’s policies and procedures on requesting a consumer’s permission and accessing their credit.
Credit Basics
Where is the Borrower’s Credit Information Located?

Creditors voluntarily report the information to National Credit Repositories/Bureaus. A credit repository/bureau is a clearinghouse for credit history information. Credit grantors provide the bureau with factual information on their credit customer’s payment history and credit usage. Each bureau assembles that information, along with public record information obtained from courthouses, into a file on each consumer.

There are three major credit bureaus:

Equifax®:
PO BOX 740256  ATLANTA, GA 30374 (800) 685-1111  www.equifax.com/fcra

Experian®:
PO BOX 2002 ALLEN, TX 75013  (888) 397-3742  www.experian.com/reportaccess

TransUnion®:
PO BOX 1000 CHESTER, PA 19022  (800) 916-8800  www.transunion.com/myoptions

These national bureaus maintain centralized databases containing the credit records of more than 200 million Americans. Credit bureaus generate over a half-billion credit reports a year.
Where is the Borrower’s Credit Information Located?

Some things to remember:

• Credit bureaus do not rate credit
• Credit bureaus do not approve or reject consumer applications for credit
• Credit bureaus only store and report the information
Who Prepares The Credit Report?

Consumer reporting agencies prepare credit reports.

These agencies:

– Specialize in obtaining records on the credit history of almost everyone who has obtained credit

– Contact national bureaus for credit history as well as identity verifications and fraud alerts
Primary Categories of Information

There are five primary categories of information:

– Identifying information
  • Identifying info may include: Name, current & previous addresses, social security number, telephone number, date of birth and current and previous employers

– Credit history
  • History of paying bills with credit grantors such as: retail stores, banks, finance companies and mortgage companies

– Public records
  • All available public record information and judgments, foreclosures, tax liens and bankruptcies

– Inquiries
  • Information about inquiries during the past 120 days. However, a consumer’s copy will list all inquiries for the past 24 months

– Alert Information
  • Information showing active military duty alerts, fraud alert statements, and potentially mis-matched information
What Details Does The Credit Report Include?

For each Tradeline listed it should include:

– Creditor’s name
– Date the account was opened
– Amount of the highest credit or original loan amount
– Required payment amount and unpaid balance
– Current status of the account
– When the account was last active
– The date the information was sent to the repository
– Partial account number
– Type of account
– A tally of how many 30,60, and 90-day delinquencies are reporting
– How many months the account has been reported to the repository
– Any past due amount
– Payment history
– Any remarks or Special Comments to describe the loan situation (real estate loan, loan modification, in dispute, FNMA loan, etc.)
What the Credit Report Does Not Include

You should not see:

– Checking or savings account information
– Medical history
– Purchases made with cash
– Income payment amounts made to accounts
– Previous balances held (unless it is a consumer version)
– Race, gender, religion, or national origin
Free Personal Credit Report

The Fair Credit Reporting Act (FCRA) and the Fair and Accurate Credit Transactions (FACT) Act, provide that every consumer is entitled to one free* Personal Credit Report from each of the 3 national credit repositories/bureaus annually

– Request Online www.annualcreditreport.com
– Request by Phone (877) 322-8228
– Request by Mail:
  • Annual Credit Report Request Service
  • P.O. Box 105281
  • Atlanta, GA 30348-5281

*It is important to note that a credit report is free, but a score is not. People often confuse and interchange "report" and "score"
The Credit Report
Credit Report Legend Examples

Equal Credit Opportunity Act (ECOA)

<table>
<thead>
<tr>
<th>Letter Code</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Authorized user - A joint account where the borrower is an authorized user, but has no contractual responsibility.</td>
</tr>
<tr>
<td>I</td>
<td>Individual account - An account solely for this borrower.</td>
</tr>
<tr>
<td>B</td>
<td>Individual account belonging to the borrower.</td>
</tr>
<tr>
<td>C</td>
<td>Individual account belonging to the co-applicant.</td>
</tr>
<tr>
<td>J</td>
<td>Joint account - An account for which both spouses are contractually liable.</td>
</tr>
<tr>
<td>M</td>
<td>Maker - An account where the borrower is primarily responsible, having a cosigner [or Co-maker] with no spousal relationship to assume liability if the borrower defaults.</td>
</tr>
<tr>
<td>P</td>
<td>Participating account - A joint account for which contractual liability cannot be determined.</td>
</tr>
<tr>
<td>S</td>
<td>Co-maker - An account for which the borrower is the co-signer, with no spousal relationship, who becomes liable if the primary signer [or Maker] defaults.</td>
</tr>
<tr>
<td>T</td>
<td>Terminated: A joint or cosigned account where the borrower is no longer associated with the account.</td>
</tr>
<tr>
<td>U</td>
<td>Undesignated account: An account that has not yet been designated.</td>
</tr>
</tbody>
</table>
Credit Report Legend Examples

**WHOSE Codes**

**WHOSE Codes**
B: Account returns from repositories under borrower's name
C: Account returns from repositories under co-applicant's name
J: Account returns from the repositories under both applicant and co-applicant names
# Credit Report Legend Examples

## Account Type

<table>
<thead>
<tr>
<th>Account Type</th>
</tr>
</thead>
<tbody>
<tr>
<td>MTG: Mortgage</td>
</tr>
<tr>
<td>INST: Installation account</td>
</tr>
<tr>
<td>AUTO: Auto loan</td>
</tr>
<tr>
<td>CRCD: Credit card</td>
</tr>
<tr>
<td>COLL: Account in collections</td>
</tr>
<tr>
<td>REV: Revolving account</td>
</tr>
<tr>
<td>OPEN: Open account</td>
</tr>
<tr>
<td>EDU: Education account</td>
</tr>
<tr>
<td>COSI: Co-signer account</td>
</tr>
<tr>
<td>LEAS: Leasing account</td>
</tr>
</tbody>
</table>

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**Credit Reports & Credit Scoring**
Credit Report Legend Examples

Account Status

<table>
<thead>
<tr>
<th>Account Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>NO STATUS - no status</td>
</tr>
<tr>
<td>CRCDLOST - credit card lost</td>
</tr>
<tr>
<td>INACTIVE - account inactive</td>
</tr>
<tr>
<td>DELETED - account deleted from report by credit agency</td>
</tr>
<tr>
<td>AS AGREEED - current/as agreed</td>
</tr>
<tr>
<td>CUR WAS 30 - account was late more than 30 days previously and is now current</td>
</tr>
<tr>
<td>CUR WAS 60 - account was late more than 60 days previously and is now current</td>
</tr>
<tr>
<td>CUR WAS 90 - account was late more than 90 days previously and is now current</td>
</tr>
<tr>
<td>CUR WAS 120 - account was late more than 120 days previously and is now current</td>
</tr>
<tr>
<td>CUR WAS COLL - account was previously in collection and is now current</td>
</tr>
<tr>
<td>CUR WAS REPO - account was previously in repossession and is now current</td>
</tr>
<tr>
<td>CUR WAS BK - account was previously in bankruptcy and is now current</td>
</tr>
<tr>
<td>CUR WAS FORE - account was previously in foreclosure and is now current</td>
</tr>
<tr>
<td>PAID - account closed and paid off</td>
</tr>
<tr>
<td>CLOSED - closed account</td>
</tr>
<tr>
<td>TRANSFERRED - transferred account</td>
</tr>
<tr>
<td>PD WAS 30 - account was late more than 30 days previously and is now paid and closed</td>
</tr>
<tr>
<td>PD WAS 60 - account was late more than 60 days previously and is now paid and closed</td>
</tr>
<tr>
<td>PD WAS 90 - account was late more than 90 days previously and is now paid and closed</td>
</tr>
<tr>
<td>PD WAS 120+ - account was late more than 120 days previously and is now paid and closed</td>
</tr>
<tr>
<td>DELINQ 30 - account currently late more than 30 days</td>
</tr>
<tr>
<td>DELINQ 60 - account currently late more than 60 days</td>
</tr>
<tr>
<td>DELINQ 90 - account currently late more than 90 days</td>
</tr>
<tr>
<td>DELINQ 120+ - account currently late more than 120 days</td>
</tr>
<tr>
<td>BANKRUPTCY - bankruptcy account</td>
</tr>
<tr>
<td>PAY PLAN - account paying under payment plan</td>
</tr>
<tr>
<td>REPOSSESS - repossession</td>
</tr>
<tr>
<td>FORECLOS - foreclosure</td>
</tr>
<tr>
<td>SETTLED - settled</td>
</tr>
<tr>
<td>VOL SUR - voluntary surrender</td>
</tr>
<tr>
<td>CHARGE OFF - charge off</td>
</tr>
<tr>
<td>COLLECTION - placed for collection</td>
</tr>
<tr>
<td>PD COLL - paid collection</td>
</tr>
<tr>
<td>PD WAS REPO - paid was repossession</td>
</tr>
<tr>
<td>PD CHG OFF - paid was charge off</td>
</tr>
<tr>
<td>PD FORCLO - paid was foreclosure</td>
</tr>
<tr>
<td>CO NOW PAY - now paying/ was charge off</td>
</tr>
<tr>
<td>GOV CLAIM - claim filed with government for insured portion of balance on loan</td>
</tr>
<tr>
<td>CISOS NP AA - closed/not paid as agreed</td>
</tr>
<tr>
<td>SCNL - cannot locate consumer</td>
</tr>
</tbody>
</table>
Credit Report Legend Examples

Rating Code Status

– The type of account on which the borrower owes can impact how the debt is calculated for mortgage lending
Credit Report Tradeline Examples

Mortgage Tradeline Example

A Mortgage Tradeline needs additional caution taken when reviewing

The payment on the report typically represents the payment based on repaying the note. It does not include escrows of taxes and insurances that the mortgage servicer may be collecting

Verify the complete obligation through:

Copies of the mortgage servicing monthly statement

Verify what, if any, escrows are being collected. Based on recent changes, Home Owners/Hazard policies may no longer be collected.

If mortgage loan is non escrowed or non-impounded, verification of current taxes and hazard insurance amounts are required

If property is a coop, condo or PUD, association dues must also be documented verified

If an Automated Underwriting System (AUS) is being used, verify that any reported late payments have been disclosed to the AUS
Credit Report Tradeline Examples

Reporting Source

Each tradeline identifies which bureaus are reporting the information. The tradeline referenced above contains the reference XP/TU/EF. This indicates that all three of the bureaus, XP (Experian), TU (Trans Union) and EF (Equifax), had this information. The XP/TU/EF indicates that account data was obtained from all three, but does not mean that they all have the same data. Unmerging the data or reviewing a tradeline comparison report will show you how each bureau is reporting the account.

Some Investors may require a minimum number of tradelines active and reported on behalf of your borrower.

Example-Your underwriting manual states that each borrower must have a usable credit score consisting of a minimum of 3 open tradelines.
During the week of June 25, 2016, Fannie Mae will implement Desktop Underwriter® (DU®) Version 10.0, which will include the changes described below.

To support our lending partners, Fannie Mae continues to make ongoing investments in our risk management tools, enabling greater confidence and efficiency in the origination process. These tools help to provide the highest probability of loan performance over time, resulting in reduced costs to service those loans. We regularly review the DU risk assessment to provide certainty and clarity that the loan meets Fannie Mae’s requirements.

The changes included in this release will apply to new loan cases created in DU on or after the week of June 25, 2016. Loan cases created in DU Version 9.3 and resubmitted after the week of June 25 will continue to be underwritten through DU Version 9.3.

The changes in this release include:
- Updated DU Risk Assessment
- Underwriting Borrowers without Traditional Credit
- Policy Changes for Borrowers with Multiple Financed Properties
- HomeReady™ Mortgage Message Updates
- Updates to Align with the Selling Guide
- Retirement of DU Version 9.2

**Updated DU Risk Assessment**

DU Version 10.0 will include an update to the DU credit risk assessment. The updated credit risk assessment will continue to measure the likelihood of a loan becoming seriously delinquent; and is expected to have minimal to no impact on the percentage of Approved/Eligible recommendations that lenders receive today.

Refer to Appendix A: Comparison of Risk Factors Evaluated by DU Versions 9.3 and 10.0 for the changes made to the risk factors with DU Version 10.0.

**Trended Credit Data**

Credit reports currently used in mortgage lending indicate only the outstanding balance, utilization and availability of credit, and if a borrower has been on time or delinquent on existing credit accounts such as credit cards, mortgages, or student loans. DU Version 10.0 will use trended credit data in the credit risk assessment, which provides access to historical monthly data (when available) on several factors, including balance, scheduled payment, and actual payment amount that a borrower has made on the account.

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## Appendix A: Comparison of Risk Factors Evaluated by DU Versions 9.3 and 10.0

<table>
<thead>
<tr>
<th>Risk Factor</th>
<th>How Factor is Viewed in DU Version 9.3</th>
<th>Change with DU Version 10.0</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Credit History</strong></td>
<td>A borrower's credit history is an account of how well the borrower has handled credit, both now and in the past. An older, established history—even though the accounts may have zero balances—will have a more positive impact on the borrower's credit profile than newly established accounts. A borrower who has a relatively new credit history (a few recently opened accounts) is not automatically considered a high credit risk. Making payments as agreed on newly established accounts signifies lower risk than not making payments as agreed.</td>
<td>No change.</td>
</tr>
<tr>
<td><strong>Delinquent Accounts</strong></td>
<td>Payment history is a significant factor in the evaluation of the borrower's credit. DU considers the severity of the delinquencies (30, 60, 90, or more days late), the length of time since the delinquencies, the number of accounts that were not paid as agreed, and the type of accounts with delinquencies. A payment history that includes bills that are 30 days or more past due, or a history of paying bills late as evidenced by a number of accounts with late payments, will have a negative impact on the borrower’s credit profile. A history of paying a mortgage loan late will have an even more negative impact on the credit profile. The amount of time that has elapsed since an account was delinquent is an important factor included in the evaluation of the payment history. For example, a 30-day late payment that is less than three months old indicates a higher risk than a 30-day late payment that occurred several years ago.</td>
<td>Mortgage delinquencies will no longer be viewed as higher risk than non-mortgage delinquencies.</td>
</tr>
<tr>
<td><strong>Mortgage Accounts</strong></td>
<td>Research has shown that borrowers who have no history of mortgage obligations represent a higher risk than borrowers who have had mortgage obligations. In addition, the relationship between the original mortgage balance and the current unpaid balance has proven to be an indicator of risk. The lower the percentage of principal that has been paid down on the mortgage, the higher the risk. The length of time since DU will no longer view borrowers with no mortgage history as a higher risk than those who have had mortgage obligations. DU will instead look at how the borrower manages debt for all types of installment loans (mortgages, auto loans, student loans, etc.).</td>
<td>No change.</td>
</tr>
</tbody>
</table>
Credit Report Tradeline Examples-Trended Credit Data

DU Version 10.0 will use trended credit data in the risk assessment.

– Trended data will include historical monthly data including: balance, scheduled payment, and actual payment amount that the borrower made
– Initially, DU will only use the trended credit data on revolving credit card accounts for the most recent 24 months’ payment history
– This information enhances the DU risk assessment
Trended Credit Data

<table>
<thead>
<tr>
<th>C</th>
<th>C</th>
<th>NASA FEDERAL CREDIT</th>
<th>DATE REPORTED</th>
<th>DATE OPENED</th>
<th>HIGH CREDIT OR LIMIT</th>
<th>BALANCE</th>
<th>PAST DUE</th>
<th>MORE REV</th>
<th>30</th>
<th>60</th>
<th>90+</th>
<th>STATUS</th>
<th>SOURCE</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>02/16</td>
<td>04/13</td>
<td>02/16</td>
<td>$12000</td>
<td>$11836</td>
<td>$0</td>
<td>35</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>R1</td>
<td>XP/TU/FF</td>
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</table>

<table>
<thead>
<tr>
<th></th>
<th>01/16</th>
<th>12/15</th>
<th>11/15</th>
<th>10/15</th>
<th>09/15</th>
<th>08/15</th>
<th>07/15</th>
<th>06/15</th>
<th>05/15</th>
<th>04/15</th>
<th>03/15</th>
<th>02/15</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scheduled ($)</td>
<td>240</td>
<td>221</td>
<td>223</td>
<td>216</td>
<td>219</td>
<td>221</td>
<td>224</td>
<td>227</td>
<td>230</td>
<td>217</td>
<td>220</td>
<td>222</td>
</tr>
<tr>
<td>Actual ($)</td>
<td>250</td>
<td>223</td>
<td>250</td>
<td>230</td>
<td>230</td>
<td>250</td>
<td>250</td>
<td>220</td>
<td>250</td>
<td>250</td>
<td>230</td>
<td>0</td>
</tr>
<tr>
<td>Balance ($)</td>
<td>11976</td>
<td>11003</td>
<td>11120</td>
<td>10792</td>
<td>10915</td>
<td>11045</td>
<td>11189</td>
<td>11333</td>
<td>11478</td>
<td>10811</td>
<td>10962</td>
<td>11093</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>01/15</th>
<th>12/14</th>
<th>11/14</th>
<th>10/14</th>
<th>09/14</th>
<th>08/14</th>
<th>07/14</th>
<th>06/14</th>
<th>05/14</th>
<th>04/14</th>
<th>03/14</th>
<th>02/14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scheduled ($)</td>
<td>220</td>
<td>223</td>
<td>225</td>
<td>223</td>
<td>220</td>
<td>218</td>
<td>200</td>
<td>203</td>
<td>205</td>
<td>208</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Actual ($)</td>
<td>250</td>
<td>225</td>
<td>250</td>
<td>250</td>
<td>250</td>
<td>200</td>
<td>220</td>
<td>205</td>
<td>250</td>
<td>250</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Balance ($)</td>
<td>10976</td>
<td>11120</td>
<td>11240</td>
<td>11116</td>
<td>10990</td>
<td>10870</td>
<td>9989</td>
<td>10118</td>
<td>10237</td>
<td>10392</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

No additional review of this information will be required initially.

Initially the trended credit data will only be reported by Equifax & Trans Union.
Trended Credit Data

Credit scoring models assess the ability and willingness of borrowers to pay their debts using data collected by the three consumer credit reporting companies: Equifax, TransUnion, and Experian. Regardless of their income or wealth, borrowers obligate themselves for debt repayment in various ways—many successfully, but some, through poor matching of income and consumption, disorganization, or for other reasons, less successfully. The assessment of debt repayment behavior expressed as a credit score is highly predictive of the probability of repaying current and future debts.

Credit scoring models have been part of Fannie Mae’s automated underwriting since we introduced Desktop Underwriter® (DU®) in 1995. DU creates a huge advantage in the precision of mortgage underwriting, which previously had relied largely on the loan-to-value ratio of the proposed loan, with no analytic consideration of creditworthiness. Initially, DU relied heavily on the prospective borrower’s FICO® (Fair Isaac Corporation) credit score as the primary indicator of creditworthiness. In 2000, we replaced the credit score with a proprietary credit risk assessment that is more predictive of performance because it is modeled directly on Fannie Mae loans.

DU’s comprehensive risk assessment considers a number of factors (see Fannie Mae Selling Guide section B3-C02: Risk Factors Evaluated by DU) such as loan purpose and loan-to-value ratio as well as borrower credit report data. To assess borrower creditworthiness, DU considers many credit report factors (described in the Fannie Mae Selling Guide, section B3-C-05: DU Credit Report Analysis).

Trended Credit Data Improves Modelling of Loan Performance

In recent years, expanded information on borrower credit histories has become available. What is called “trended credit data” is historical data on a trending (credit line) or trend on several key factors, including amount owed (balance), minimum payment due, and payment amount made. In 2015, Fannie Mae used 3.7 million credit reports with trended data (dated June 2009 through August 2012) to conduct modeling and analytics to support a comprehensive review and re-development of DU’s credit risk assessment.

Including trended data materially improved modeling of loan performance. Based on that finding, Fannie Mae has worked with the credit reporting agencies to have trended data included in the consumer credit reports used for underwriting loans through DU, effective with DU® Version 10.3 (scheduled for release the weekend of June 26, 2016). Trended data is not included in currently available credit scores, so consideration in the DU credit risk assessment will be its first widespread use in the mortgage lending industry.

Trended Credit Data Empowers Creditworthy Borrowers

Including the trended data in DU’s credit risk assessment: 1) improves the accuracy of DU’s overall risk assessment, and 2) will benefit borrowers who regularly pay off revolving debt, increasing the likelihood that they will receive an Approval recommendation from DU. This means that use of trended data in DU’s credit risk assessment can provide more creditworthy borrowers access to mortgage credit. The overall percentage of loans that receive an Approve/Eligible recommendation is expected to remain relatively stable.

Giving weight to how borrowers pay off credit debts puts more power in their hands to control their credit evaluation. Payment delinquencies are a significant factor in credit scores, and borrowers can do nothing but wait for the delinquencies to grow ever farther back in time. But when trended data is considered, by paying credit card balances in full or in large part for a few months, borrowers can demonstrate that a late payment was not deeply reflective of their general debt repayment ability and behavior.

Based on Fannie Mae’s analysis, borrowers can potentially improve their evaluation by the DU credit risk assessment each month by paying off credit card bills in full.

DU Supports Access to Credit with Prudent Risk Management

DU has seen the industry moving automated mortgage underwriting systems for more than 20 years. DU’s evaluation is fair and objective, applying the same criteria to every mortgage loan application it considers. Fannie Mae is committed to continuous improvement of the DU risk assessment model. We continue to make ongoing investments in our risk management tools, to enable the origination of better performing loans, resulting in reduced costs to service those loans. The addition of trended data to the credit risk assessment is an update that will help to support creditworthy borrowers’ access to mortgage credit while reducing risk.
Trended Data shows:
- What kind of spender the applicant is
- How their behavior has changed over time (are they trending up or down?).
- How often they open & close accounts
- What they spend/pay every month
Credit Report Tradeline Examples

Collection Account

Remember to include all collection amounts that are required to be paid in the total assets required.

Check products and program guidelines to verify if a collection must be paid off prior to or at closing - guidelines will vary from product to product.

It is important to note that a collection and a chargeoff are the same payment status, but are different account types. Be sure to check your guidelines for specific requirements.
Credit Report Tradeline Examples

Public Records

Delinquent credit—including taxes, judgments, tax liens, mechanic’s or materialmen’s liens, and liens that have the potential to affect an Investor’s lien position or diminish the borrower’s equity—must be paid off at or prior to closing. Some exceptions exist based on the underwriting method (manual or AUS) and your Investor.

See Investor Guidelines

https://www.fanniemae.com/content/guide/selling/b3/6/07.html
http://www.freddiemac.com/learn/pdfs/deliver/allregs_combined.pdf
Credit Report Examples

Inquires

Please check your company guidelines on how to address recent credit inquires!

Credit inquires may indicate that the borrower has recently applied for new and/or additional credit.

If the borrower has obtained new and/or additional credit, the amount of debt and the repayment amount typically must be considered in calculating the borrower’s indebtedness (DTI).
The Credit List may be useful if the borrower sees a discrepancy on their report and needs contact information. If any information has been reported inaccurately and needs to be revised, a Credit Supplement is typically required.

Please note that medical collections reported to Equifax will not contain the name or contact information for the collection agency. A consumer would have to contact Equifax directly to obtain that information.
How Long Will Items Remain on a Consumers Credit Profile?

The chart below references how long credit items will remain on the consumer’s record. The timeframes do not indicate how long the items will impact (positively or negatively) a consumer’s Credit Score.

<table>
<thead>
<tr>
<th>Type</th>
<th>Limitation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bankruptcy Chapter 7 or 11 &amp; Non-discharged or dismissed Chapter 13</td>
<td>10 years from the date filed</td>
</tr>
<tr>
<td>Bankruptcy Chapter 13 (discharged)</td>
<td>7 years from the date filed</td>
</tr>
<tr>
<td>Suits &amp; Judgments</td>
<td>7 years from date of entry or expiration of appropriate statute of limitations, whichever is longer</td>
</tr>
<tr>
<td>Tax Liens - PAID</td>
<td>7 years from date of payment*</td>
</tr>
<tr>
<td>Tax Liens - UNPAID</td>
<td>No limitation</td>
</tr>
<tr>
<td>Charged to Profit &amp; Loss</td>
<td>7 years</td>
</tr>
<tr>
<td>Criminal Record Limitations</td>
<td>No Limitations on criminal conviction</td>
</tr>
<tr>
<td>Other Adverse Information</td>
<td>7 years</td>
</tr>
</tbody>
</table>

*Based on IRS Reporting

http://blog.equifax.com/credit/faq-how-long-does-information-stay-on-my-credit-report/
Credit Disputes

Consumer Disputes Fair Credit Reporting Act (FCRA)

Changes to credit data must take place at the repository level in order for the information to affect the score. Consumers must write a letter of dispute regarding the erroneous information to the appropriate repository referencing the tradeline, account number(s), and the specifics of the reported error. Each bureau/repository has an online dispute method as well.

Under the Fair Credit Reporting Act, a credit repository has 5 days from receipt of a written consumer dispute request to contact the appropriate credit grantor about the request. And 30 days, of the original repository notification, to receive a reply back.

Within 5 days of completion of the investigation, the repository must send a written report to the consumer with its findings (and a copy of the revised report if there were any changes).
Credit Disputes

Consumer Disputes (FCRA) Outcomes: Consumer Disputes may result in three possible scenarios:

– No response from the creditor at all…the data is REMOVED
– Confirmation from the creditor…the data STANDS
– Revision by the creditor…the data is CHANGED

In all cases, the consumer is NOTIFIED of the results

For additional information please access the two websites referenced below-
Federal Trade Commission (FTC) Guidance on Credit Disputes

CFPB Guidance on Credit Disputes
Credit Scoring
Credit Scoring Basics

What is a Credit Score?

– A Statistical Model
– A Predictor of Future Performance Based on Prior Experience
– A Model Based on Known Performance
– A Scorecard Factoring in Many Characteristics
– A Value Falling in a Range from approximately 300 to 850 in the mortgage industry. Several others have expanded/different ranges
Scoring Models

The Scoring Models that are used in the mortgage industry were developed and are maintained by Fair Isaac Corp.

- FICO
  - The most common credit score in use was developed by Fair Isaac Corporation (FICO)
  - Evaluates the borrower’s credit data
  - Assigns a “score” which predicts borrower’s likelihood to repay credit obligations
Benefits of Credit & Mortgage Scoring

Scoring enables lenders to:

– Achieve consistency & objectivity in underwriting
– Identify high risk loans from a credit perspective
– Bring efficiency, consistency and profitability to all aspects of the industry

Scores are indicators of risk and performance for the credit portion of the file. Underwriters continue to use their knowledge and experience, as well as agency guidelines to evaluate risk and make loan decisions.
What Is In A Credit Score

According to MyFico.com a Credit Score is created based on data within 5 major categories:

– Payment History
– Amount Owed
– New Credit
– Length of Credit History
– Types of Credit in Use
How my FICO Scores are calculated

FICO® Scores are calculated from many different pieces of credit data in your credit report. This data is grouped into five categories as outlined below. The percentages in the chart reflect how important each of the categories is in determining how your FICO Scores are calculated.

Your FICO Scores consider both positive and negative information in your credit report. Late payments will lower your FICO Scores, but establishing or re-establishing a good track record of making payments on time will raise your score.

How a FICO Score breaks down

- 30% Amounts Owed
- 10% New Credit
- 15% Length of Credit History
- 35% Payment History
- 10% Types of Credit in Use
What Is Not In A Credit Score

FICO Scores consider a wide range of information on your credit report. However, they do not consider:

– Your race, color, religion, national origin, sex and marital status (US law prohibits credit scoring from considering these facts, as well as any receipt of public assistance, or the exercise of any consumer right under the Consumer Credit Protection Act)

– Your age (other types of scores may consider your age, but FICO Scores don't)

– Your salary, occupation, title, employer, date employed or employment history (Lenders may consider this information) as well as other types of scores

– Where you live

– Any interest rate being charged on a particular credit card or other account

– Any items reported as child/family support obligations
What Is Not In A Credit Score

FICO Scores consider a wide range of information on your credit report. However, they do not consider: continued

– Certain types of inquiries (requests for your credit report)
– Your scores do not count “consumer-initiated” inquiries – requests you have made for your credit report, in order to check it
– They do not count “promotional inquiries” – requests made by lenders in order to make you a “pre-approved” credit offer – or “administrative inquiries” – requests made by lenders to review your account with them
– Requests that are marked as coming from employers are not counted
– Any information not found in your credit report
– Any information that is not proven to be predictive of future credit performance
– Whether or not you are participating in a credit counseling of any kind
Generating A Credit Score

What are the minimum requirements to generate a FICO Score?

– At least 1 account that has been open for a minimum of 6 months
– At least 1 undisputed account that has been reported to the credit bureau within the last six months
– No indication that the consumer is deceased
Why Wasn’t It A Perfect Score

The Reason Codes will be included in the report when a credit score is ordered.

– Reason codes are listed in DESCENDING order of importance and are displayed with each score

– Reason codes show which area of the consumer’s credit did not score as highly as possible. In some cases – these reasons highlight issues not associated with traditional “derogatory” information

– These codes can be relayed back to the borrower to explain how they can change/improve their credit profile (over time)

– Score factors seem less “relevant” for higher-scoring consumers as they merely indicate the reason why they did not score HIGHER
## Reason Codes

### Score Models

<table>
<thead>
<tr>
<th>Score Model</th>
<th>Score</th>
<th>Reason Codes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equifax/FICO Classic V5 FACTA - Luis T Testcase Jr - 000000009</td>
<td>486</td>
<td>00038 - Serious Delinquency, and Derogatory Public Record or Collection Filed</td>
</tr>
<tr>
<td></td>
<td></td>
<td>00013 - Time Since Delinquency is Too Recent or Unknown</td>
</tr>
<tr>
<td></td>
<td></td>
<td>00018 - Number of Accounts with Delinquency</td>
</tr>
<tr>
<td></td>
<td></td>
<td>00034 - Amount Owed on Delinquent Accounts</td>
</tr>
<tr>
<td></td>
<td></td>
<td>FA - Number of Inquiries Adversely Affected the Score, but Not Significantly</td>
</tr>
<tr>
<td>Transunion/FICO Classic (98) - Luis T Testcase Jr - 000000009</td>
<td>531</td>
<td>038 - Serious Delinquency, and Public Record or Collection Filed</td>
</tr>
<tr>
<td></td>
<td></td>
<td>013 - Time Since Delinquency is Too Recent or Unknown</td>
</tr>
<tr>
<td></td>
<td></td>
<td>002 - Level of Delinquency on Accounts</td>
</tr>
<tr>
<td></td>
<td></td>
<td>010 - Proportion of Balances to Credit Limits is Too High on Bank Revolving or Other Revolving Accounts</td>
</tr>
<tr>
<td></td>
<td></td>
<td>FA - Derogatory Information Was Found on the File, and Inquiries Impacted the Credit Score</td>
</tr>
<tr>
<td>Experian/Fair, Isaac (Ver. 2) - Luis T Testcase Jr - 000000009</td>
<td>493</td>
<td>38 - Serious Delinquency and Public Record or Collection Filed</td>
</tr>
<tr>
<td></td>
<td></td>
<td>20 - Time Since Derogatory Public Record or Collection is Too Short</td>
</tr>
<tr>
<td></td>
<td></td>
<td>13 - Time Since Delinquency is Too Recent or Unknown</td>
</tr>
<tr>
<td></td>
<td></td>
<td>10 - Proportion of Balance to High Credit on Bank Revolving or All Revolving Accounts</td>
</tr>
<tr>
<td></td>
<td></td>
<td>08 - Too Many Inquiries Last 12 Months</td>
</tr>
</tbody>
</table>
Which FICO Models Do We Use In The Mortgage Industry?

Currently there are many FICO Score versions. [www.MyFICO.com](http://www.MyFICO.com)

The chart below illustrates the many versions available.

<table>
<thead>
<tr>
<th>Experian</th>
<th>Equifax</th>
<th>TransUnion</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Most widely used version</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FICO® Score 8</td>
<td>FICO® Score 8</td>
<td>FICO® Score 8</td>
</tr>
<tr>
<td><strong>Versions used in auto lending</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FICO® Auto Score 8</td>
<td>FICO® Auto Score 8</td>
<td>FICO® Auto Score 8</td>
</tr>
<tr>
<td>FICO® Auto Score 2</td>
<td>FICO® Auto Score 5</td>
<td>FICO® Auto Score 4</td>
</tr>
<tr>
<td><strong>Versions used in credit card decisioning</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FICO® Bankcard Score 8</td>
<td>FICO® Bankcard Score 8</td>
<td>FICO® Bankcard Score 8</td>
</tr>
<tr>
<td>FICO® Score 3</td>
<td>FICO® Bankcard Score 5</td>
<td>FICO® Bankcard Score 4</td>
</tr>
<tr>
<td>FICO® Bankcard Score 2</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Versions used in mortgage lending</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FICO® Score 2</td>
<td>FICO® Score 5</td>
<td>FICO® Score 4</td>
</tr>
</tbody>
</table>
Which FICO Models Do We Use In The Mortgage Industry?

As per Fannie Mae and Freddie Mac guidelines, the specific models listed below are currently the only acceptable models. Although the most widely used FICO score is FICO Score 8 the mortgage industry is using a much earlier model version.

GSE Acceptable Models

– Equifax Beacon 5.0;
– Experian/Fair Isaac Risk Model V2SM; and
– TransUnion FICO Risk Score, Classic 04
New Credit

New Credit determines only 10% of a FICO Score yet it seems to be the most controversial category. New credit is not solely inquiries. It is only a part of what falls into "new credit"

Do mortgage inquires lower a score?

– Maybe! Most consumers will not see any score reduction, even though their inquiries may be considered. They may not produce a negative result!

There are many different types of inquiries that will have different impacts within the different score models. The different types of inquiries are:

– Soft Inquiries
  • Employment or Insurance are examples

– Hard Credit Seeking Inquiries
  • Consumer applies for credit
New Credit

Based on the current models used in the mortgage industry the following applies:

- **30-Day Buffer:**
  - No Mortgage inquiry within 30 days from the current inquiry is counted in the score. Only codes of same-type apply to the buffer. So mortgage inquiries won't consider other mortgage inquiries

**De-Dupe Periods (Depending on Score Version):**

- 14-days – All Auto inquiries within a rolling 14-day window count as 1 Auto inquiry; All Mortgage inquiries within a rolling 14-day window count as 1 Mortgage inquiry
- 45-days – All Auto inquiries within a rolling 45-day window count as 1 Auto inquiry; All Mortgage inquiries within a rolling 45-day window count as 1 Mortgage inquiry

*For additional information on Understanding FICO Scores*

Legal Requirements

Legal Requirements of Fair and Accurate Credit Transaction Act (FACT Act)

What must be disclosed or provided to the Consumer?

– Consumer’s current credit score
– Range of possible credit scores under the model used
– Up to five key factors that affected the score
– Date the score was created
– Name of the person/entity that provided the score
– Notice to Home Loan Applicant
Legal Requirements

Legal Requirements: The Federal Reserve Board and Federal Trade Commission (hereinafter, the "Agencies") jointly adopted the Risk Based Pricing Rule ("Rule")

– When a Score and/or Credit Report is used in the determination of a credit decision a disclosure must be given to the consumer
Agency Credit Guidelines

Credit Requirements when utilizing Automated Underwriting System (AUS)
Fannie Mae

Fannie Mae’s Desktop Underwriter® (DU)

A tri-merge Credit Report is required

FICO scores must be requested for each borrower

– If one or two of the credit repositories do not contain any credit information for the borrowers who have traditional credit the credit report is still acceptable as long as:
  • Credit data is available from one repository
  • A credit score is obtained from that one repository, and
  • The lender requested a three in-file merged report
A Representative Score must be determined for Underwriting and Delivery of the mortgage file. Follow these steps.

– Fannie Mae recommends obtaining at least two credit scores for each borrower
– Select a single applicable score for underwriting each borrower
  • When two scores are obtained, choose the lower
  • When three scores are obtained, choose the middle score
– If there is only one borrower, the single applicable score used to underwrite that borrower is the representative score for the mortgage. If there are multiple borrowers, determine the applicable credit score for each individual borrower and select the lowest applicable score from the group as the representative score
Underwriting Borrowers without Traditional Credit

Eligibility Guidelines
For loan files where the borrowers do not have established traditional credit, DU will apply the following additional guidelines:

– Principle residence where all the borrowers will occupy the property
– One-unit property (not a manufactured home)
– Purchase or limited cash-out transaction
– Fixed-rate
– Conforming loan amount (may not be a high-balance loan)
– LTV, CLTV & HCLTV may not exceed 90%
– DTI must be less than 40%

• DU will require the lender verify at least two non-traditional credit sources for each borrower, one must be housing-related. A 12 month history is required for each source. See Fannie Mae’s Selling Guide for guidance.

Loan casefiles that do not meet these guidelines will receive an “out of Scope” recommendation
Underwriting Borrowers without Traditional Credit

DU will consider the following factors when evaluating the overall credit risk of borrowers who lack established credit histories:

– Borrowers equity & LTV Ratio
– Liquid reserves
– DTI Ratio
Loan Files with a Credit Score

With DU Version 10.0 DU will continue to evaluate casefiles that include a borrower with a score and a borrower without traditional credit. However some requirements have been removed.

– The requirement that the qualifying income cannot come from self-employment has been removed.
– If the borrower with the score is contributing 50% or less of the qualifying income the borrower without traditional income must document a minimum of two sources of non-traditional credit.
  • DU will issue a message.
  • The sources must have been active for 12 months.
  • One of the sources must be housing related.

Q17. When the borrower without traditional credit lives rent-free and does not have a housing-related source of nontraditional credit, could the loan be eligible for delivery to Fannie Mae?

Borrowers who do not have credit scores and are relying on nontraditional credit sources to qualify must document a housing-related source of nontraditional credit. If the borrower is not able to document a rental history as a source of nontraditional credit, the loan is not eligible for delivery to Fannie Mae.

NOTE: For borrowers that have traditional credit, a housing-related credit reference is not required.
Authorized User Accounts

– DU considers authorized user accounts in its credit risk assessment. FICO scores may be impacted but DU’s risk engine looks at the tradelines and makes a credit recommendation

– Lenders should review these types of accounts to ensure that they represent an accurate reflection of the borrower’s credit history

– When ensuring tradelines are an accurate reflection of the borrower's credit history, as a general guide, if the borrower has several authorized user accounts but only has a few accounts of his/her own, the lender should establish:
  • the relationship of the borrower to the owner of the account,
  • if the borrower uses the account, and
  • if the borrower makes the payments on the account.

– Lenders typically should underwrite without the benefit of these tradelines

– For additional guidance please review Fannie Mae guidelines at:

https://www.fanniemae.com/content/guide/selling/b3/5.3/09.html
Fannie Mae

Disputed Tradelines

– DU does not take the information on the tradeline into consideration as part of its overall credit risk assessment

• The lender is required to validate the information as accurate or inaccurate when a message alert is issued by DU
Freddie Mac’s Loan Product Advisor℠ (LPA)

A tri-merge Credit Report or 3 In-File Reports are required

FICO scores must be requested for each borrower

Identifying the Underwriting Score is achieved by:

– If the borrower has two scores select the lowest
– If three scores have been returned use the middle score
– When the file has more than one borrower use the lowest of the individual underwriting scores

http://www.freddiemac.com/learn/pdfs/uw/credit_scores.pdf
For an Accept Mortgage and an A-minus Mortgage, Loan Product Advisor has determined that the Borrower's credit reputation is acceptable

- In all other Mortgages, the Seller must thoroughly evaluate the Borrower's credit reputation in accordance with the requirements set forth in this section and document in the Mortgage file the Seller's conclusion the reputation is acceptable
Authorized User Accounts

- The Lender must disregard the FICO scores based on significant inaccuracies which include tradelines for accounts in which the borrower is not the primary account holder, but is listed as the authorized user. The lender does not have to disregard the FICO score if evidence in the file proves
  - Another borrower on the file owns the tradeline in question
  - The tradeline is owned by the borrower’s spouse, or
  - The borrower has been making payments on the account for the past 12 months
Freddie Mac

Inquires

– Inquires may indicate the borrower has additional debt.

  • The lender must determine if the inquires within the previous 120 day period have resulted in additional credit
Underwriting Guidelines

Genworth Mortgage Insurance underwritten by:
Genworth Mortgage Insurance Corporation

Let’s help someone buy a house today.
Genworth Resources

Add the Expertise of Genworth to Your Support Team

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Please address questions to one of Genworth’s Expert Underwriters:

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mi.genworth.com/LenderServices/Underwriting
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Recorded Webinars
Sales & Marketing
Self-Employed Borrower Calculators
TRID Resources
Training FAQs
Trainer Bios

TRAiNING

Webinar Schedule
Our webinar sessions address topics that are essential to mortgage professionals.

Monthly Webinar Calendars
Course Catalog

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Self-Employed Borrower Calculators
Income Calculation Tools and Reference Guides

For more information about Genworth Training offerings please contact your Genworth Representative.

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Calculation Tools

SELF-EMPLOYED BORROWER CALCULATORS

Use the following calculators and quick reference guides to assist you in calculating and analyzing the average monthly income of a self-employed borrower. It provides suggested guidance only and does not replace Fannie Mae/Freddie Mac instructions or applicable guidelines.

Due to various internet browser versions, please download and save PDF before entering data. Please note, calculators are updated periodically.

Automated Income Calculation Tools

- Fannie Mae Form 1064 Calculator (2014-2015)
- Freddie Mac Form 01 Calculator (2014-2015)
- Fannie Mae Rental Guide (Calculator 1037)
- Fannie Mae Rental Guide (Calculator 1038)
- Fannie Mae Rental Guide (Calculator 1039)

Previous versions of income calculation forms can be found at our Forms Library.

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Course Catalog

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Password
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LOGIN

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