# MI Decision Tips

## 2nd Quarter 2026

Enact's Risk Quality Assurance team creates this report to help underwriters and processors submit quality originations. Each quarter, you can use this report to discover the most frequently made GSE and MI decision errors and learn how to avoid them. You will find the specific GSE guideline requirement along with best practices and links to Enact's online training modules. Remember, loans requiring an exception to Enact published guidelines must be sent in for an Enact underwrite.

| Income – Analyzing the Borrower's Income | | |
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| **Defect** | **Underwriting Guideline** | **Best Practices & Examples** |
| Income/Employment Misrep | The underwriter needs to review the AUS for the minimum level of documentation required for the loan. It may not be adequate for the loan's particular circumstances so additional documentation may be warranted to substantiate the loan decision.<br><br>For additional details on fraud prevention and best practices, go to **singlefamily.fanniemae.com/mortgage-fraud-prevention** or **sf.freddiemac.com/working-with-us/fraud-prevention/emerging-fraud-schemes**. | **Example 1:** Borrower has been working as a self-employed cleaner making $7,700/month. Checking account deposits don't support level of monthly income. 1003 also shows Borrower as married yet 2025 returns show her as head of household. Schedule C of origination returns is incomplete for business name, address, and NAICS code. No supplies, car/truck expenses, or travel expense deductions that you would expect to see with the borrower being in the cleaning business. As a result of the red flags, Enact obtained tax transcripts that verified Borrower filed 2025 returns as married filing joint. Self employed income on origination returns shows Schedule C income of $68,516 vs. $63,274 on transcripts. Borrower did not file any self-employed income in 2024 but W2 income of $21,633 and no returns were found to have been filed for 2023. DTI cannot be calculated as the borrower has been self-employed for less than 5 years.<br><br>**Example 2:** Per 1003 Borrower has been working as a self-employed landscaper for 19 years making $7,476/month. As Enact was unable to independently reverify income/employment, tax transcripts were received which verified Borrower did not file any returns in 2024 or 2023. DTI cannot be calculated as the borrower has been self-employed for less than 5 years. Tax preparer letter indicates that she prepared 2025 returns and that borrower has been SE since 2006, it is noted that she does not indicate that she prepared any previous years. Tax preparer is a licensed LO as well as a tax preparer per LinkedIn and per an NMLS search she also works for the broker of this loan. |

## Best Practices for Verifying Self-Employed Borrowers

Enact is seeing a shift towards self-employed income misrep, particularly among borrowers who have been in business more than 5 years, file Schedule C, and are in occupations that have little or no verifiable online presence or work in occupations that do not require licensing. These borrowers often qualify with only one year of returns, limiting visibility into income stability, business longevity, and earnings trends.

Reviewers should ask relevant questions, validate plausibility, and document research. If questions remain unresolved or red flags are identified, obtain IRS transcripts through a properly completed 4506-C to validate both the income used for qualification and the borrower's self-employment history. Ensure the form is completed accurately and that the address on the 4506-C matches the address reflected on the tax returns. Requesting up to three years of transcripts may reveal a shorter self-employment history than represented by the borrower.

### Common Red Flags to Be Aware Of:

+ Inconsistencies in occupation type from 1003, tax preparer letter, page 2 of the tax returns and Schedule C
+ Principal Business or Professional Activity Code (Schedule C, Line B) is missing or does not align with the business represented on other documentation
+ Minimal/unrealistic expenses or unusually large depreciation amounts on Schedule C that are inconsistent with the nature of the business (e.g. cleaning company with no expenses for supplies/materials, vehicle use, or mileage)
+ 1003 shows borrower name as business name and position or title as Owner with little or no supporting business information
+ Business name and/or business type is omitted from both the Schedule C and 1003
+ Newly established or limited credit profiles that do not support the stated length of self-employment
+ Recently established IRS installment agreements
+ Self-employment verification is provided by an individual who is not the tax preparer of record, cannot be linked to the tax preparation firm, uses a personal email address and cell, or is associated with a residential address rather than an established business location
+ The loan officer is also acting as the realtor, tax preparer, or another interested third party in the transaction
+ No licensing, business registration, website, or other independent evidence of business operations when such evidence would be reasonably expected

**Enact Fraud Training:**

**Fraud: Latest Trends and Tips**
**Shut the Door on Fraud Part I**
**Shut the Door on Fraud Part II**

**Enact Income Training:**

**Review and Calculate Base Income**
**Review and Calculate Misc Employment Incomes**

| Program – Analyzing the Borrower's Program | | |
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| Occupancy Misrep<br><br>Excessive Seller Contributions | Occupancy type matters due to the different levels of risk and guidelines pertaining to primary, second and investment properties. Lower risk transactions allow for high LTV's and lower interest rates. This difference could be an incentive for borrowers to misrepresent an investment property for a primary.<br><br>Ensure team members know the difference between interested party contributions (IPC) and sales concessions. Verify that the IPC's don't exceed maximum allowed per LTV.<br><br>For additional details on Owner Occupancy common red flags, see **Fannie Mae Mortgage Fraud Prevention** section in their Selling Guide. | **Example 1:** Misrepresented Occupancy – Loan closed as a primary residence at 95% LTV, however, various websites show subject property was listed for rent on 1/21/2026 for $6,750/month. Loan closed on 12/24/2025. Online search indicates the subject property is located .9 miles from departure residence (3 minutes). Departure residence valued at $700,000 according to 1003 REO, subject sale price $671,132. If full PITI/HOA of $4355 for departure counted against the borrower DTI 86.18%.<br><br>**Example 2:** Seller paid closing costs of $5,000 exceeds maximum of 3% ($3,300) allowed per LTV and borrower's actual closing costs of $3,656.47. Reducing the sales price by excessive amount of $1,700 results in LTV of 98.52% which is ineligible per Enact guidelines, loan closed with LTV of 97%.<br><br>**Best Practices:** Be aware of common red flags and question as necessary. Does primary occupancy make sense? Scrutinize letters of explanation. Some Lenders have had Borrowers sign an attestation at closing stating they are still employed with current employer, intend to occupy subject as represented and have not opened any new debt prior to closing.<br><br>Review homeowners' insurance policies for red flags. |

| Credit - Analyzing the Borrower's Credit | | |
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| **Defect** | **Underwriting Guideline** | **Best Practices & Examples** |
| Obligations Miscalculated/ Debt Excluded Affecting Ratios | Under Enact's Simply Underwrite Eligibility guidelines, Lenders must follow the documentation required by DU® and Loan Product Advisor®. Additional documentation may be warranted to support the underwriting decision, per Fannie Mae and Freddie Mac guidance.<br><br>Review closely all bank statements to ensure recurring monthly payments not reported on the credit report are included in the DTI.<br><br>For additional details on liabilities, visit Fannie Mae Chapter B3-6: Liability Assessment or Freddie Mac Chapter 5201: Credit Assessment with Loan Product Advisor®. | **Example 1:** Undisclosed Debt: Reverification of credit report reveals new automobile debt, monthly payment of $594 with balance $18,369, including the new debt results in DTI increase from 25.89% shown on AUS to 30.13%. Due to increase more than 3% resubmission to AUS would be required.<br><br>**Example 2:** During the course of our review, Enact identified two files that appeared to belong to the same borrower, who was purchasing two investment properties at the same time.<br><br>**Enact Liability Training**<br><br>**Liabilities: Calculating and Modifying the DTI** |

## For More Information

Contact us at **Action.Center@EnactMI.com** or 800-444-5664 for questions or to give us feedback.

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