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

Risk Factor	How Factor is Viewed in DU Version 9.3	Change with DU Version 10.0
Credit History	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.	No change.
Delinquent Accounts	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.	Mortgage delinquencies will no longer be viewed as higher risk than non-mortgage delinquencies.
Mortgage Accounts	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.).

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	a delinquency (if any) has occurred, the severity of delinquency, and the age of the mortgage accounts are also factored into the credit analysis.	
Revolving Credit Utilization	The establishment, use, and amount of revolving credit a borrower has available are important. Generally, the lower the balances are on revolving credit as a percentage of the credit limit, the lower the risk. A borrower whose revolving credit utilization is high is considered a greater risk than someone who has a history of managing his or her credit card accounts more conservatively.	The trended credit data will be used to evaluate the borrower's ability to manage revolving credit card accounts. A borrower who uses revolving accounts conservatively (low revolving credit utilization and/or regular payoff of revolving balance) will be considered a lower risk. A borrower whose revolving credit utilization is high and/or who only makes the minimum monthly payment each month will be considered higher risk as it indicates the borrower may have trouble making payments in the future.
Public Records, Foreclosures, and Collection Accounts	A credit history that includes any significant derogatory credit event that was reported as a public record, such as bankruptcy filings, foreclosures, deeds-in-lieu of foreclosure, judgments, tax liens, or accounts that have been turned over to a collection agency, is considered a high risk. The more recently such events occurred, the more adverse the impact is on the credit profile. Although most public record information is retained in the credit history for seven years (ten years for bankruptcies), as time passes, it does become less significant to DU's credit evaluation.	DU will also consider preforeclosure sales and mortgage charge-offs as significant derogatory credit events.
Inquiries	DU evaluates inquiries made within the most recent six months of the credit report date. Historically, a high number of inquiries can indicate a higher degree of risk. However, multiple inquiries made by several creditors within a short time frame because a borrower was attempting to obtain the most favorable loan rate or terms generally do not indicate higher risk and are not considered as such in the credit evaluation. Borrowers who have frequently applied for, or obtained, new or additional credit represent a higher risk.	DU will evaluate inquiries made within the most recent 12 months. However, multiple inquiries made by different mortgage lenders or different auto loan creditors in the same timeframe will not be viewed by DU as multiple inquiries.
Borrower's Equity and LTV	The amount of equity in the property is a very important component of the risk analysis. Research has shown that a borrower who makes a large down payment or who has considerable equity in his or her property is less likely to	No change.

	become delinquent on a mortgage loan than a borrower who makes a small down payment or has a small amount of equity in a property. In other words, the more equity a borrower has in the property, the lower the risk associated with the borrower's mortgage loan. DU may use a low LTV ratio to offset other risks that it may identify in the loan application.	
Liquid Reserves	Liquid reserves are those financial assets that are available to a borrower after a loan closes. Reserves are calculated as the total amount of liquid assets remaining after the loan transaction closes divided by the qualifying payment amount. DU considers higher amounts of liquid reserves as more favorable than lower amounts or no reserves. Research has shown that mortgages to borrowers with higher amounts of liquid reserves tend to have lower delinquency rates. As with a low LTV ratio, DU may consider high amounts of reserves as an offset for other risks that it may identify in the loan application.	No change.
Loan Purpose	There is a certain level of risk associated with every transaction, whether it is a purchase or a refinance. Purchase transactions continue to represent less risk than refinance transactions. When evaluating refinance transactions, a limited cash-out refinance transaction represents less risk than a cash-out refinance transaction, and lower LTV/CLTV refinance transactions will be viewed as representing less risk than higher LTV/CLTV refinance transactions. On construction-to-permanent transactions, DU will continue to determine the purpose of refinance based on the amount of cash the borrower is receiving at closing.	DU will no longer consider the LTV/CLTV when evaluating the risk of refinance transactions. Purchase transactions will continue to represent less risk, followed by limited cash-out refinance transactions, and cash-out refinance transactions as the highest risk level.
Loan Term	Research has shown that mortgages to borrowers who choose to finance their mortgages over shorter terms and build up equity in their properties faster generally tend to perform better than mortgages with longer amortization periods.	No change.

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Loan Amortization Type	Research has shown that there is a difference in loan performance based on the manner in which the mortgage amortizes. Fixed-rate mortgages will be viewed as representing less risk than adjustable-rate mortgages.	No change.
Occupancy Type	Performance statistics on investor loans are notably worse than those of owner-occupied or second home loans, especially at higher LTV ratios. Therefore, DU will assign a higher level of risk to all investment property transactions.	DU will no longer consider the LTV/CLTV when evaluating the risk of investment property transactions. Owner-occupied transactions will continue to represent least risk, followed by second home transactions, and investment property transactions as the highest risk level.
Debt-to-Income Ratio	In DU's evaluation, generally, the lower the borrower's debt-to-income ratio (DTI ratio), the lower the associated risk. As the ratio increases, the level of risk also tends to increase; and a high ratio will have the greatest adverse impact on the recommendation when there are also other high-risk factors present.	No change.
Property Type	Another important factor that DU considers in the risk analysis is the collateral or property type. DU differentiates the risk based on the number of units, and in some cases the property type (e.g., manufactured home). The level of risk associated with each property type is as follows, starting with those property types representing the least amount of risk: • one-unit properties; • two-, three-, and four-unit properties; • manufactured homes.	No change.
Co-borrowers	DU considers the number of borrowers (who have traditional credit) on a mortgage application in its evaluation because, generally, the presence of more than one borrower with traditional credit helps to reduce risk. Research has shown that mortgages that have more than one borrower tend to have a lower delinquency rate than mortgages with one borrower. However, additional borrowers tend to reduce risk only when they have good credit histories.	No change.

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Self-Employment	Not a risk factor in DU Version 9.3.	Self-employment income can vary from year to year, and because of the increased chance of uneven cash flows, self-employment introduces an additional layer of risk to a mortgage loan application that is not present with salaried borrowers. Research has shown that self-employed borrowers tend to default on their mortgages more often than salaried borrowers, when all other risk factors are held constant. DU will take this additional risk into consideration when the only borrower on the loan is self-employed as his/her primary source of income, or when two of the borrowers on the loan are self-employed as their primary source of income.

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