

UNDERWRITING MANUAL

RECEIVED
DEC 7 - 1955
O. S. LIBRARY



REVISED
MARCH 15, 1955

FEDERAL HOUSING ADMINISTRATION
WASHINGTON, D. C.

real estate security, or a low ratio of loan to value cannot compensate for an unacceptable mortgagor. Therefore, when the mortgagor's characteristics, circumstances, or prospects are such that insurance of the mortgage should be declined, the case must be disapproved with certainty and decisiveness as a protection to the interests of the Administration as well as those of the mortgagor and mortgagee.

Credit Characteristics of Mortgagor

1634. Analysis of the credit characteristics of the mortgagor requires an appraisal of (a) the mortgagor's character, (b) his family life and relationship, (c) his attitude toward obligations, and (d) his ability to manage affairs. These elements relate solely to basic attitudes such as the honesty, integrity, and to some extent the judgment of the mortgagor. Consideration of these attitudes is essential to any type of credit consideration. It follows from the nature of these elements that a case which is unacceptable because of the mortgagor's basic attitudes cannot be made acceptable by reducing the amount of the loan.

1635 (1). **CHARACTER.** The actions of an individual and his relationship with others, over a period of time, characteristically reflect the basic attitudes of the mortgagor and give a strong clue as to what may be expected of him in his dealings with others. While most people will meet their obligations as long as conditions are favorable, true character becomes evident under the strain of adverse conditions. Therefore, evidence of the mortgagor's performance and attitudes under adverse conditions in the past is of special significance. There is no valid basis for the credit grantor to assume that he will receive preferential treatment over other creditors or better treatment than the mortgagor's record suggests.

1635 (2). The elements of character in their fullest significance are too deeply rooted to be discerned with complete accuracy. Past performance serves as the most reliable guide in forecasting the attitudes that will govern the individual's future actions. Individual performances which offend or injure others seldom escape, for any appreciable length of time, the notice and records of the community and of those engaged in the business of compiling personal histories such as credit reporting agencies, credit grantors and employers. Unacceptable hazards are such characteristics as habitual drunkenness, illegal connections and operations that may adversely affect the individual's basic attitudes, lead to his being ostracized by his community, or cause his financial failure.

1635 (3). The absence of information covering a large segment of the mortgagor's marital record is a distinct hazard

in the granting of credit. Therefore, if local records pertaining to a mortgagor cover only a short recent period of time, antecedent information is obtained prior to the analysis of the risk.

1635 (4). The considerations given to this element of risk are applicable also to the corporation and partnership type of mortgagor. Business firms through their relationship with others establish definite characteristics in the conduct of business. The character of this type of mortgagor will be no better than the character of the individuals who control and guide its policies and activities. If credit reports obtained on these firms are not sufficiently clear in this respect, individual factual data reports covering the principals are obtained as a guide toward their basic attitudes.

1636 (1). **FAMILY LIFE AND RELATIONSHIP.** The degree of risk resulting from the family life and relationship of the mortgagor, although generally less discernible than that contributed by other elements, has particular significance in the evaluation of the mortgage credit risk in a mortgage transaction. It has been demonstrated that inharmonious domestic relationships are an important cause of foreclosure. The determination as to this risk will be dependent upon recognition of items in the credit report and personal history of the mortgagor which give evidence of family discord, pending divorce suits, reconciliation after initiation of divorce suits, and other items which point to unstable family conditions.

1636 (2). The mortgagor who is married and has a family generally evidences more stability than a mortgagor who is single because, among other things, he has responsibilities holding him to his obligations. The newly-married mortgagor entering into a long-term mortgage transaction presents some element of risk in that his family life is not established. However this risk of itself is not so great as to preclude approval for mortgage insurance.

1637 (1). **ATTITUDE TOWARD OBLIGATIONS.** The analysis of this element of risk is based upon the premise that a mortgagor's attitude toward meeting his obligations probably will be no better in the future than that which has been evidenced by his past record. The manner in which the mortgagor has paid his obligations, therefore, is an important criterion in determining acceptability and the degree of the risk. The factual information furnished by lenders and other creditors, such as the data reported as "trade checkings" in credit reports, will furnish a valuable basis for this determination. This will be true especially when the record extends over a long period and when the names of the individuals are