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# Conventional Lending Guide

## Chapter 3 | Automated Underwriting

Cardinal utilizes Fannie Mae's Desktop Underwriter® (DU®) and Freddie Mac's Loan Prospector® (LPA) automated underwriting systems (AUS) for all Conventional and Conventional High Balance Loans.

DU and LPA analyze the overall loan transaction. The AUS system will evaluate the borrower's overall mortgage delinquency risk and render an underwriting recommendation relying on a comprehensive examination of the primary and contributory risk factors in a mortgage application.

Since no one factor in a loan application determines a borrower's ability or willingness to repay, DU and LPA identify low-risk factors that can offset high risk-factors. When several high-risk factors are present in a loan casefile without sufficient offsets, the likelihood of delinquency increases.

DU and LPA assess loan casefiles uniformly without regard to race, gender, or other prohibited factors.

Cardinal Overlays to agency guidelines are highlighted in our signature **Riptide** color, and are also listed in the corresponding [Retail](#) or [TPO](#) Product Overlay Matrix available on the HUB.

### Data Accuracy

To ensure that AUS findings are accurate and reliable, the underwriter is responsible for ensuring that information on the loan application is verified and correctly entered within Cardinal's system of record. Cardinal requires that a loan casefile be resubmitted to the AUS engine if any change is made.

### AUS Findings Report

The DU or LPA Underwriting Findings report summarizes the overall underwriting recommendations and lists the steps necessary for the lender to complete the processing of the loan file.

Cardinal accepts the documentation standards listed in the Underwriting Findings report but reserves the right to ask for additional information should additional factors not evaluated by the AUS system be present.

### Underwriting Recommendations

The AUS systems assess two components. To be eligible for origination, both components must be rendered acceptable to the AUS system utilized.

- Borrower credit risk
- Transaction eligibility

### Acceptable Underwriting Recommendations

All Conventional and Conventional High Balance loans must receive one of the following recommendations:

- DU: Approve/Eligible
- LPA: Accept/Eligible Risk Class

### Unacceptable Underwriting Recommendations

Fannie Mae DU	Freddie Mac LPA
Refer/Eligible	Caution
Refer/Ineligible	Invalid
Refer with Caution	Ineligible
Out of Scope	Incomplete

### LPA Positive Rental Payment History in Credit Assessment

Loan Product Advisor (LPA) has been enhanced to indicate in the submission when a borrower's rent payment history can be documented. For certain mortgages, the borrower's rent payment history may impact the LPA credit assessment by upgrading a mortgage's Risk Class from Caution to Accept. When successful, the Feedback Certificate will include a message indicating the borrower's positive rent payment history was included in the credit assessment and that additional documentation must be maintained in the file.

For full guidance related to the enhancement, refer to [Chapter 6 | Credit | Conventional Lending Guide > Positive Rental Payment History in Credit Assessment](#).

### Manual Underwriting

Manual underwriting is not permitted by Cardinal on Conventional or Conventional High Balance loans unless:

- The Subject is a Primary Residence, and
- The Borrower is a U.S. Citizen and currently does not reside in the United States
  - A non-U.S. Citizen borrower is not eligible for manual underwriting.

In cases where the borrower currently resides outside the United States, DU and LPA will not properly evaluate the transaction. It is not permissible to enter an invalid US address to process the loan through DU or LPA; these cases would be for a U.S. citizen borrower who is moving back to the United States for a primary residence purchase.

Cardinal will assess the borrower's mortgage application following a comprehensive risk approach. When manually underwriting a loan file, the underwriter is responsible for:

- Evaluating the delinquency risk of the transaction
- Reviewing the credit report as well as all other credit information to ensure the credit profile meets Cardinal's requirements, the credit data is accurate, and that the borrower can repay the loan.
- Assessing the adequacy of the property as collateral for the loan
- Determining whether or not the loan meets Cardinal's product eligibility guidelines
- Fully documenting income and assets per Cardinal's underwriting guidelines
- Fully documenting the risk assessment
- Verify the loan meets the applicable Agency Manual Underwriting guidelines

### Comprehensive Risk Assessment Requirements

A comprehensive risk assessment must be made by the underwriter on any manually underwritten transaction. This evaluation takes into consideration the overall level of serious delinquency risk by considering the layering of risk factors, the significance of those risk factors, and the overall risks present in the mortgage application.

The underwriter must assess the loan application utilizing the product guidelines and underwriting guidelines taking into account these individual risk elements:

- LTV, CLTV, and HCLTV ratios ("LTV ratios")

- Qualifying credit score
- Occupancy
- Loan purpose
- Loan amortization type
- Property type and number of units
- Product type (if applicable)
- Debt-to-income (DTI) ratio
- Financial reserves

The underwriters' determination of the mortgage delinquency risk, the assessment of the adequacy of the property as security for the loan, the determination of whether the loan satisfies Cardinal's eligibility criteria, and the acceptability of the documentation in the loan file should all enter into the decision on whether to approve the transaction.

The underwriter must fully document the results of their comprehensive risk assessment and final underwriting decision, and ensure that the information used to reach the comprehensive risk assessment is valid, accurate, and substantiated.

## References

Reference List
N/A

## Revision History

*Revision History is to be used as a reference only and will only provide a summary of document changes. For complete versioning, refer to the Google Docs versioning functionality, which is the system of record.*

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Date	Description	Approver
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7.14.25	V4	<p>Added guidance under LPA Positive Rental Payment History in Credit Assessment indicating Loan Product Advisor (LPA) has been enhanced; for certain mortgages, the borrower's rent payment history may impact the LPA credit assessment by upgrading a mortgage's Risk Class from Caution to Accept. Full guidance for this enhancement can be found in Chapter 6   Credit   Conventional Lending Guide</p> <p>This update is effective immediately</p>	Kristen Bellon
3.18.24	V3	Indicated Cardinal Overlays to agency guidelines by highlighting text in our signature <i>Riptide</i> color. Overlays correspond to Cardinal Retail Overlay or TPO Overlay Matrix	Kristen Bellon
12.10.21	V2	Immaterial changes. Corrected grammar and formatting to align with company standards.	N/A
4.20.21	V1	Clarified that Manual Underwriting for DU and LPA is permissible for a primary residence only	Kristen Bellon
7.15.19	-	Clarified that non-U.S. Citizen Borrowers are Not Eligible for Manual Underwriting	Ellen Clayson
9.2017	-	Initial Approval	Erica Price