

# Tips for Reviewing Caution Mortgages

Getting a Caution risk class in Loan Product Advisor® (LPA<sup>SM</sup>) is **not** rejection.

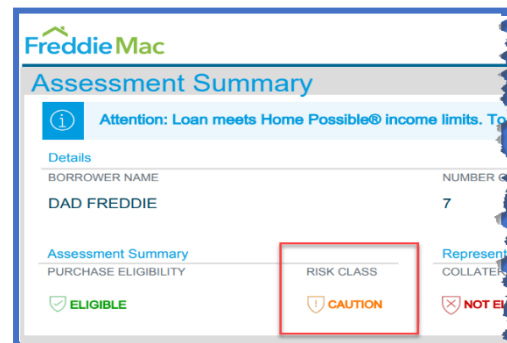


It's a **redirection** to uncover missed **opportunities** that are more **tailored** for your **borrower**.

## Finding Opportunity in Caution Loans

When a loan receives a Caution risk class, loan originators may be unsure about how to proceed and might even consider it a hard stop. However, a Caution can be an **opportunity**, one that with more information about our purchase requirements, could turn into an Accept.

Caution messages are returned in the **Credit and Liabilities Messages** section of the LPA Feedback Certificate.



This resource provides information to assist you in originating mortgages that receive a Caution risk class and how to review the Caution messages to help you:



**Quickly** identify reasons why LPA returned a Caution risk class.



**Identify** the type of Caution messages returned.



**Determine** actions to take and know how to proceed.

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## Next Steps: *The feedback certificate is your roadmap!*

### Credit and Liabilities Messages

| CODE    | MESSAGE                                      |
|---------|--|
| FCL0421 | Identifying positive borrower cash flow may  |
| FCL0434 | LPA Choice: Debt to Income. Based on the S   |
| FCL0436 | LPA Choice: Reserves. Based on the applicat  |
| FCL0175 | Caution Factor: Credit History. Based on the |
| FCL0374 | Caution Factor: Loan to Value/Total Loan to  |

**Review** the messages returned in the **Credit and Liabilities Messages** section of the feedback certificate.

You may receive the following types of Caution messages:

⇒ **LPA Choice<sup>SM</sup>**

⇒ **Caution Factor**

**In addition**, you may receive messages related to positive cash flow or rent payment history that may positively impact the risk assessment.

**Identify** the types of messages.

**Did you receive...**

- **LPA Choice** message(s) that identify **actionable** steps about **how** to proceed. LPA Choice messages\* are received when a **reasonable** change to **income**, **down payment** or **reserves** could increase the **likelihood** of a loan receiving an Accept. The message identifies a change amount for a specific loan characteristic, as applicable.

**Review the *new LPA Choice feedback messages for debt-to-income ratio, loan-to-value ratios and reserves*, [Loan Product Advisor Feedback Message Updates](#).**

- **Caution Factor** message(s) that **identify** the **primary** factor(s) **why** LPA returned a Caution risk class. By understanding the reasons, you can work to remediate potential blockers for an Accept (e.g., when applicable, did the message(s) provide additional loan data to help you clear Cautions).
- A message indicating the **opportunity** to use **positive borrower cash flow** or **rent payment history** in the LPA credit assessment that may result in an Accept.



**\*Note:** When more than one LPA Choice message is returned it's up to you to choose whether to take action with respect to any of the items and, if so, which one(s). If you choose to act on the LPA Choice message, it's not necessary to act on all messages as acting on only one message could be sufficient to help the loan get to Accept. There is no guarantee of a change in risk class to Accept as other loan factors could have an impact.



Let's try it out, review this example, and determine next steps.

## Credit and Liabilities Messages

| CODE    | MESSAGE  |
|---------|--|
| FCL0421 | Identifying positive borrower cash flow may result in a Risk Class of Accept. Obtain verification of asset(s) report(s) and resubmit.  |
| FCL0435 | LPA Choice: Loan to Value/Total Loan to Value. Based on the application data, an LTV/TLTV of 80.00%/80.00% impacted the risk class. Reduction of the loan amount by \$25,100.00 may help meet established underwriting guidelines for purchase.                      |
| FCL0383 | Caution Factor: Credit History Length. Based on the credit report(s), there is short credit history length that impacted the risk class.   |
| FCL0268 | Caution Factor: Debt to Income. Based on the application the DTI ratio impacted the risk class. Total submitted total income of \$1,990.00 and total debt of \$893.19 resulted in a qualifying DTI ratio of 45.00%. Verify income and debt were submitted correctly. |
| FCL0375 | Caution Factor: Utilization of credit. Based on the credit report(s), utilization of credit impacted the risk class.   |

1  
ONE

The primary factor(s) for the reason for the Caution is due to credit and ratios.

- ✓ Short length of credit history and utilization of credit impacted the risk class (Message FCL0383 and FCL0375).
- ✓ Debt-to-income (DTI) ratio (Message FCL0268).

2  
TWO

What, if any, actionable messages were provided on how to proceed.

- ✓ An LPA Choice message was returned indicating that a reduction in the LTV ratio by the indicated amount may help meet underwriting requirements (Message FCL0435).
- ✓ Identifying positive borrower cash flow may result in a risk class of Accept (Message FCL0421).

3  
THREE



### Opportunity.

You have options on next steps\*.

**Purchase Transaction:** In this example, the LPA Choice message informs you that with an additional down payment of \$25,100.00, the risk class may be able to change to an Accept.

- ✓ **Action:** Determine if the borrower has the available eligible funds. If yes, obtain additional documentation, reduce the loan amount (\$25,100.00) and resubmit to LPA.

**Note:** If the borrower lacks sufficient assets identified in the LPA Choice message, the loan will remain at risk for a Caution risk class. However, it's possible that changes to other loan factors or to a combination of loan factors could increase the chances of getting the loan to an Accept. Review the Caution Factor messages.



In this example, the short credit history and utilization of credit were primary Caution Factors. However, a message indicates the loan may benefit from positive cash flow to use in the LPA credit assessment.

✓ **Action:** You have the option to obtain an asset verification report and resubmit to LPA.



### Did you know...

LPA's borrower cash flow assessment uses a borrower's account (asset) data to identify certain patterns in the transaction history. You can obtain a third-party service provider asset report and submit the Report ID and LPA will assess the inflows and outflows present in the account data and changes in account balances month-over-month. When positive cash flow is identified, it may positively impact the credit risk assessment. Access the [Borrower Cash Flow Included in Loan Product Advisor Assessment](#) job aid to learn how.



**\*Reminder:** It's up to you to choose whether to take action with respect to any of the items and, if so, which one(s). If you choose to act on the LPA Choice message, it's not necessary to act on all messages as acting on only one message could be sufficient to help the loan get to Accept. There is no guarantee of a change in risk class to Accept as other loan factors could have an impact.



**Let's take a look at a Caution Factor example.**

### Credit and Liabilities Messages

| CODE    | MESSAGES   |
|---------|--|
| FCL0370 | Caution Factor: Debt to Income. Based on the application the DTI ratio impacted the risk class. Total submitted total income of \$7,000 and total debt of \$4,000 resulted in a qualifying DTI ratio of 57.14%. Verify income and debt were submitted correctly. |



The primary factor(s) for the reason for the Caution is due to capacity.

✓ The debt-to-income (DTI) ratio impacted the risk class (Message FCL0370).



2  
TWO

What, if any, actionable messages were provided on how to proceed.

- ✓ Verify income and debt were submitted correctly.

3  
THREE



### Opportunity.

In this example, the Caution Factor message provides the detail for the income and total debts submitted to LPA to determine the DTI ratio.

- ✓ **Action:** Confirm the information is accurate. If yes, focus on options to reduce the DTI ratio. Determine if the borrower has additional income and/or can payoff or pay down debt and resubmit to LPA.



Let's take a look at an example using rent payment history.

### Credit And Liabilities Messages

| CODE    | MESSAGE  |
|---------|--|
| FCL0383 | Caution Factor: Credit History Length. Based on the credit report(s), there is short credit history length that impacted the risk class. |
| FCL0175 | Caution Factor: Credit History. Based on the credit report(s), a combination of credit history factors impacted the risk class.          |
| FCL0421 | Rent payment history may positively impact the credit risk assessment. Obtain asset verification report(s) and resubmit.                 |

1  
ONE

The primary factor(s) for the reason for the Caution is due to credit.

- ✓ Short length of credit history and combination of credit history factors impacted the risk class (Message FCL0383 and FCL0175).

2  
TWO

What, if any, actionable messages were provided on how to proceed.

- ✓ Identifying rent payment history may result in a risk class of Accept (Message FCL0421).



### Opportunity.

Purchase Transaction – First-time homebuyer: In this example, the short credit history and utilization of credit were primary Caution Factors. However, a message indicates rent payment history may positively impact the credit assessment.

✓ **Action:** Obtain an asset verification report and resubmit to LPA.



#### Did you know...

For first-time homebuyers who are purchasing a primary residence you can submit an asset verification report to LPA that includes the account from which the borrower pays rent for their current housing expense in order to have the borrower’s rent payment history considered in LPA’s credit assessment. Obtain an asset report from a third-party service provider, submit the Report ID and LPA will assess the report and when it can identify a positive housing payment history for rent, it will include the payment history in its credit assessment provided certain other requirements are met. Access the [Rent Payment History Assessment Included in Loan Product Advisor](#) job aid to learn how.



### You still have options on your Caution mortgages.

For all other mortgages that received a Caution risk class that did not receive an LPA Choice message, borrower cash flow or positive rent payment history messages, or the change did not result in a risk class change, the Seller must manually underwrite the mortgage and assess the borrower’s capacity to repay in accordance with Guide **Topics 5100 through 5500**. Even though a loan receives a Caution risk class there’s an opportunity for the Seller to document extenuating circumstances, if applicable, which are described in [Guide Section 5202.5\(a\)](#).



### Resources: We’re here to help....

**[Never Miss an Opportunity with LPA<sup>SM</sup>: Use Caution Messages to Your Advantage](#) webinar** - Attend this webinar to learn more about the LPA Choice messages and walk through scenarios and next steps.

[LPA Choice FAQs](#)

[Article: LPA Choice: Identify Opportunity to Get to Accept](#)

[Run with Opportunity Webpage](#)

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