



The table below describes the compensating factors that may be used to justify approval of mortgage loans with ratios that exceed FHA benchmark guidelines.

Compensating Factor	Guideline Description
Housing Expense Payments	The borrower has successfully demonstrated the ability to pay housing expenses greater than or equal to the proposed monthly housing expenses for the new mortgage over the past 12-24 months.
Down Payment	The borrower makes a large down payment of 10% or higher toward the purchase of the property.
Accumulated Savings	The borrower has demonstrated <ul style="list-style-type: none"> <li>an ability to accumulate savings, and</li> <li>a conservative attitude toward using credit.</li> </ul>
Previous Credit History	A borrower's previous credit history shows that he/she has the ability to devote a greater portion of income to housing expenses.
Compensation or Income Not Reflected in Effective Income	The borrower receives documented compensation or income that is not reflected in effective income, but directly affects his/her ability to pay the mortgage.  This type of income includes food stamps and similar public benefits.
Minimal Housing Expense Increase	There is only a minimal increase in the borrower's housing expense.
Substantial Cash Reserves	The borrower has substantial documented cash reserves (at least three months worth) after closing. The lender must judge if the substantial cash reserve asset is liquid or readily convertible to cash, and can be done so absent retirement or job termination, when determining if the asset can be included as cash reserves, or cash to close.  Funds and/or "assets" that are <i>not</i> to be considered as cash reserves include <ul style="list-style-type: none"> <li>equity in other properties, and</li> <li>proceeds from a cash-out refinance.</li> </ul> <p>The lender may use a portion of a borrower's retirement account, subject to the following conditions. To account for withdrawal penalties and taxes, only 60% of the vested amount of the account may be used. The lender must document the existence of the account with the most recent depository or brokerage account statement. In addition, evidence must be provided that the retirement account allows for withdrawals under conditions other than in connection with the borrower's employment termination, retirement, or death. If withdrawals can only be made under these circumstances, the retirement account may not be included as cash reserves. If any of these funds are also to be used for loan settlement, that amount must be subtracted from the amount included as cash reserves. Similarly, any gift funds that remain in the borrower's account following loan closing, subject to proper documentation, may be considered as cash.</p> <p><b>Note:</b> Reserves from retirement accounts and gifts as described above may be considered as cash reserves when scoring the mortgage application through TOTAL.</p> <p><b>Reference:</b> For information on acceptable sources of cash reserve funding, see HUD 4155.1 5.B.</p>
Substantial Non-Taxable Income	The borrower has substantial non-taxable income.  <b>Note:</b> This applies if no adjustment was previously made when computing ratios.
Potential for Increased Earnings	The borrower has a potential for increased earnings, as indicated by job training or education in his/her profession.
Primary Wage-Earner Relocation	The home is being purchased because the primary wage-earner is relocating, and the secondary wage-earner <ul style="list-style-type: none"> <li>has an established employment history</li> <li>is expected to return to work, and</li> <li>has reasonable prospects for securing employment in a similar occupation in the new area.</li> </ul> <p><b>Note:</b> The underwriter must document the availability of the potential employment.</p>