project description

The CHFA RISC is a model used to evaluate risk levels of applicants for CHFA mortgage loans who have credit scores between 580 and 619 or whose loan requires manual underwriting. The CHFA RISC was implemented for all new reservations effective February 1, 2010. The ultimate goal was to mitigate the risk to CHFA.

mitigating risk

By the summer and fall of 2009, changes in the mortgage industry resulted in fewer investors and lenders buying or originating loans that were manually underwritten or had credit scores under 620. These loans typically had an inherently higher risk associated with them.

CHFA was one of the few investors still accepting applicants with credit scores below 620, allowing a minimum of 580. We felt an obligation to serve this subsection of Coloradans because of our mission; we were created to help those that couldn't normally get traditional financing. However, there was concern among CHFA staff and the Board of Directors that we were being adversely selected for the delivery of these loans, as we were one of the few investors willing to take those riskier applicants. In addition, CHFA staff was also concerned about loan performance in our own portfolio for loans that fell into these categories.

Rather than eliminating all loans for applicants with credit scores below 620 or loans that were manually underwritten, we chose to develop a scoring system to help us and our participating lenders determine which applicants were ready for homeownership, in spite of a lower credit score, while helping CHFA mitigate our portfolio risk.

a unique evaluation

Due to the types of loans that make up our loan portfolio and the portfolio performance, we have unique default indicators. Government-insured and guaranteed loan programs are silent on nearly all of these issues. We needed to create our own measurement of lending risk.

Using basic underwriting techniques of assessing contributory risk factors, we developed the CHFA RISC, assigning the risk factors with a point value, both positive and negative, to determine if an applicant was ready to apply for a CHFA loan.

The CHFA RISC is a matrix with 10 different risk factors ranging from Most Recent Employment History to Additional Applicant Down Payment. Each factor is rated with a central, neutral risk of zero points with a potential of +2 points for significantly decreasing risk to a -2 points for significantly increasing risk. Applicants must have a total score of zero or greater to apply for a CHFA loan.

There are some stops within the risk factors that will not allow an applicant to proceed with a CHFA loan application. For instance, a non-medical collection or judgment, or a late mortgage or rental payment in the past 12 months means that the applicant cannot apply for a CHFA loan. Non-medical collections and judgments in the most recent 13-24 months cannot exceed $2,000 in total. Debt-to-income ratios on Automatic Underwriting System-approved loans cannot exceed 50 percent. Manually underwritten loans cannot exceed 45 percent.

a tool for improvement

It's important to note that failure to qualify under the CHFA RISC does not mean that applicants are unable to apply for a CHFA loan forever; it's just not now. Applicants with a negative score have the option to work within the CHFA RISC to decrease risk and therefore increase their total score to qualify to apply for a CHFA loan. Positive offsets such as additional down payment, cash reserves, or a minimal increase to an applicant's existing housing expense will add positive points. The CHFA RISC is intended as a place to start a conversation between applicants and lenders to create a plan for how an applicant needs to work to improve their total score.

CHFA participating lender feedback

"The RISC scorecard removes the obstacles that exist in the lending industry that prevent lenders from offer financing to borrowers in what would be considered an emerging markets—an HFA borrower. This tool creates a standard for evaluating the characteristics of a loan so that a lender can manage their risk without relying on an industry-standard automated underwriting system (AUS). Most borrowers in the lower income brackets may not have the opportunity for homeownership since the AUSs are not designed to evaluate the strengths of the borrower in spite of the credit challenges that may exist. The scorecard is a good answer to this challenge."

Anita Padilla Fitzgerald

"As a mortgage professional with 30 years experience (over 25 years as an underwriter), I have found the CHFA RISC to be one of the most innovative and useful tools for determining the acceptability of our most challenging borrowers. Borrowers with low FICO scores who have had serious credit, job stability, and/or no demonstrated ability to save issues have always been the most difficult borrowers to review. With this tool, we can support our approval or denial based on easily identified strengths or weaknesses.

In addition, this tool enables the loan production staff to see immediately if their borrower will qualify through facts, not feelings. The CHFA RISC also helps the production staffs focus on how to counsel the borrowers to better position themselves and what steps are necessary to be ready to purchase a home. While the CHFA RISC is being used primarily for CHFA loans, I believe it is an excellent tool for all loans and helps us make good decisions in these ever-changing and challenging times."

Gayle Campbell

results are replicable
Our Lender Advisory Group and Board of Directors support the use of CHFA RISC and are already seeking other applications. One of our lenders adopted the form, with some variations, for use in their own portfolio; another is using it for loan applicants within a higher credit band. A nonprofit down payment provider is evaluating whether it could be a value-add in reducing the risk in their down payment loans.

responds to a management challenge or opportunity
There were conflicting concern regarding loans with credit scores between 580 and 619. Research showed that these loans had a higher default rate; however, following our mission meant helping those people who could not receive financing elsewhere. We needed to target those applicants who had a lower credit score but did not have a high risk.

demonstrates effective use of resources
An important element for the CHFA RISC was ease of use. Lenders can take training without leaving their offices with our CHFA RISC webinar, and we have created an entire section of our website devoted to CHFA RISC, which includes printable materials for their customers and a printable copy of the CHFA RISC.

When using the CHFA RISC, the lender completes the form with the applicant at the time of loan application. If the CHFA RISC shows a zero or higher score, the lender submits the CHFA RISC with the Compliance file to CHFA. Our Compliance Analyst reviews the lender RISC submission for accuracy as a part of the Compliance review process. In addition, CHFA staff is always available for consultation on more complex applicants.

achieves measurable improvements in agency operations
Within the first quarter of 2010, loan applicant volume in the 580 to 619 credit score range from 2009 was reduced by 34 percent. Although early payment default now shows 2.4 percent, the quality of applicants coming to CHFA appears to have significantly improved, based on our Compliance Analyst’s feedback. All of this means that we are greatly reducing intake, loss mitigation, and compliance staff loan volume, freeing up their time to focus on the (many) other elements of their positions.

provides benefits that outweigh the costs
Over time, the reduction of loans with significant risks in our portfolio will directly reduce loan servicing costs, including default staffing, the cost of delinquency calls and follow-up, and the costs associated with foreclosure.

achieve strategic objectives
With CHFA RISC, we are able to help our target market without taking on an inordinate amount of risk. We are also helping people obtain their dream of homeownership by showing them how to improve their situation to receive a CHFA loan. The CHFA RISC is not just a risk management tool, but an educational one as well.