

# 5 Ways to Up Your Approval Game!

**Best Strategies**

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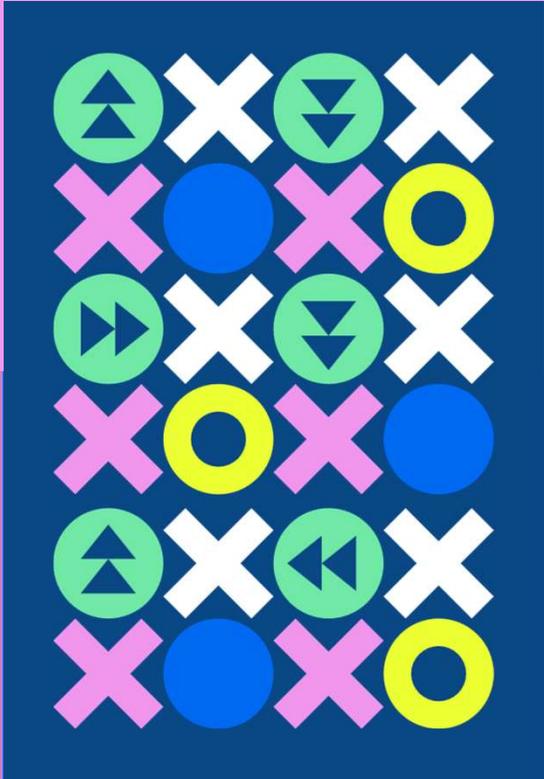
# Game objectives

## 5 Ways to Up Your Approval Game

1. Build trust during the interview
2. Know your playbook
3. Coach the borrower
4. Understand the house rules
5. Avoid defects & remedies

Let the games begin!





# #1 The interview

The key to building trust with your borrowers

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## THE INTERVIEW

# The art of the interview

- Know what questions to ask & how to ask them
- Practice active listening
- Understand the big picture
- Avoid mortgage speak
- Provide written options

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# Active listening tips



Be fully present & do not multi-task



Ask open-ended questions & listen to understand



Reflect & become comfortable with silence



Ask for clarification & paraphrase



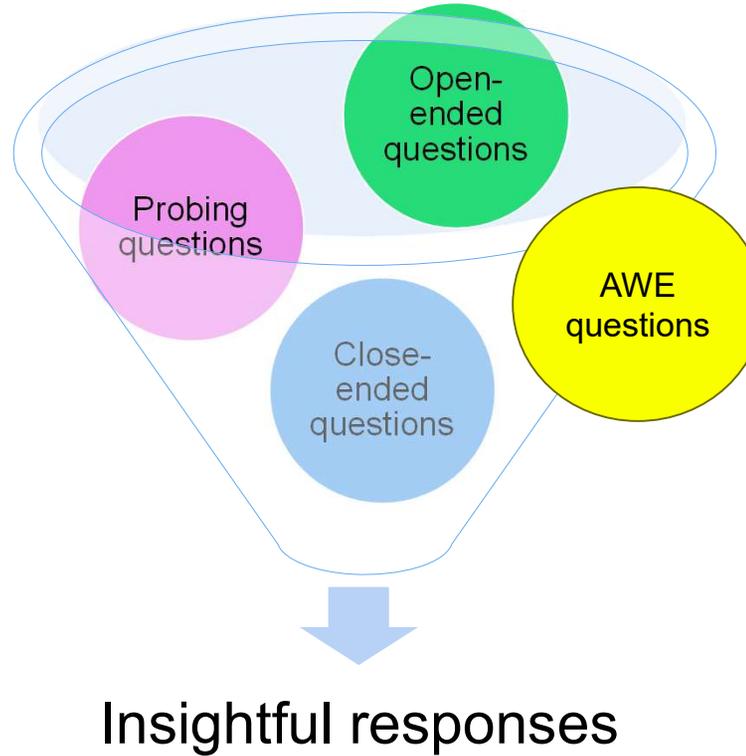
Listen for emotion & motive behind the content



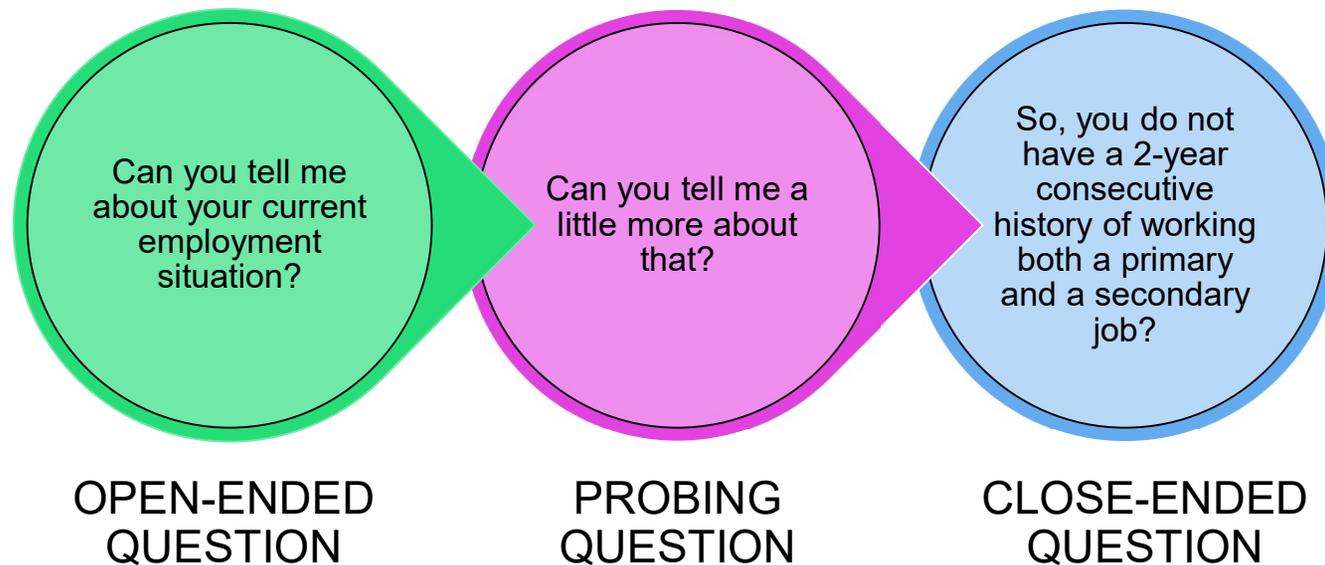
Respond with empathy & thank them for sharing

THE INTERVIEW

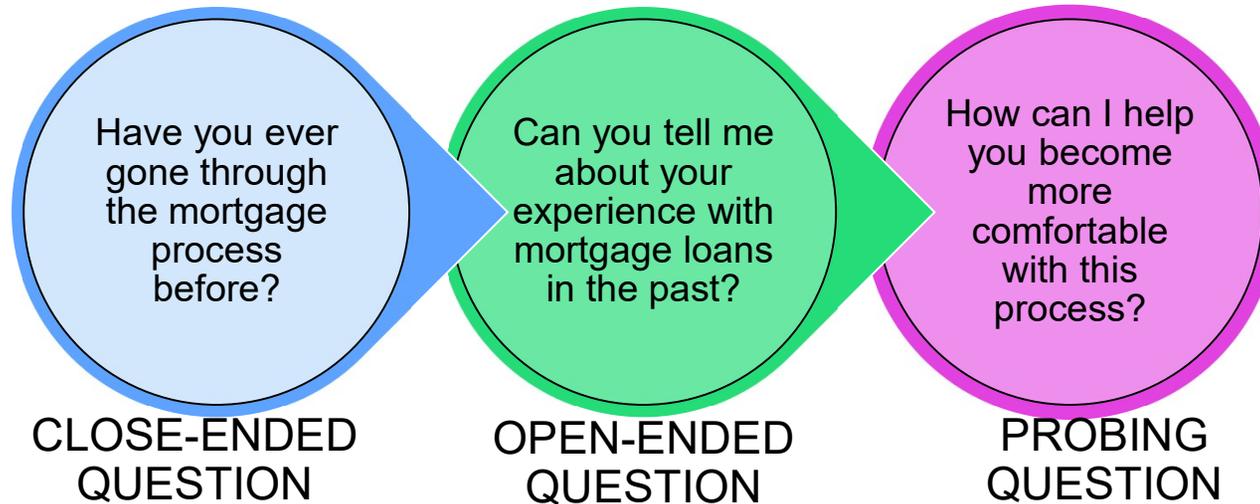
# Ask better questions



# Types of questions



# Types of questions



## THE INTERVIEW

# Take the time to educate your borrowers

[mgic.com/mortgage-connects/truth-about-6-common-mortgage-myths](https://mgic.com/mortgage-connects/truth-about-6-common-mortgage-myths)



## The truth about 6 common mortgage myths



### Separating fact from fiction

These common misconceptions can be intimidating, especially when mortgage myths continue to persist for generations. Here are some facts that will help you debunk 6 common myths and bring you closer to your dream of homeownership.

Myth	Reality
<b>A 20% down payment is necessary.</b>	<p>The median percent down payment on a home is 14%. For first-time homebuyers, it's even lower, at 8%.</p> <p>▶ Many lenders offer programs that allow for <b>down payments</b> as low as 3%, and some loan programs don't require a down payment at all.</p>
<b>Private mortgage insurance (PMI) should be avoided.</b>	<p>PMI helps homebuyers – especially first-time homebuyers – reach savings goals faster and become homeowners sooner than otherwise possible.</p> <p>▶ If you're a move-up buyer, PMI allows you to consider a wider range of homes by leveraging your investment in your current home. And PMI is typically cancellable after you've built up enough equity in your home.</p>
<b>Higher down payments always result in better interest rates.</b>	<p>While a higher down payment can improve the chances of getting approved for a loan, it doesn't always result in a better interest rate.</p> <p>▶ Other factors, such as your <b>debt-to-income ratio (DTI)</b>, also play a role in determining your rate.</p>
<b>A low credit score is a deal breaker.</b>	<p>While a good <b>credit score</b> can help you get approved for a loan and secure a lower interest rate, it's not the only factor lenders consider.</p> <p>▶ Your lender can show you all your options and identify which loan programs could work for your credit score.</p>
<b>Down payment assistance programs are only for low-income buyers.</b>	<p>Some <b>down payment assistance</b> programs are designed specifically for first-time homebuyers or buyers in certain geographic areas, while others are available to anyone who meets the program requirements.</p> <p>▶ Ask your lenders if you meet the requirements for available programs.</p>
<b>Student loan debt is a barrier to homeownership.</b>	<p>You can still buy a home with <b>student loan debt</b> if you have solid, reliable income, are making consistent monthly payments and have a DTI of less than 50%.</p> <p>▶ Making regular payments can actually boost your credit score.</p>

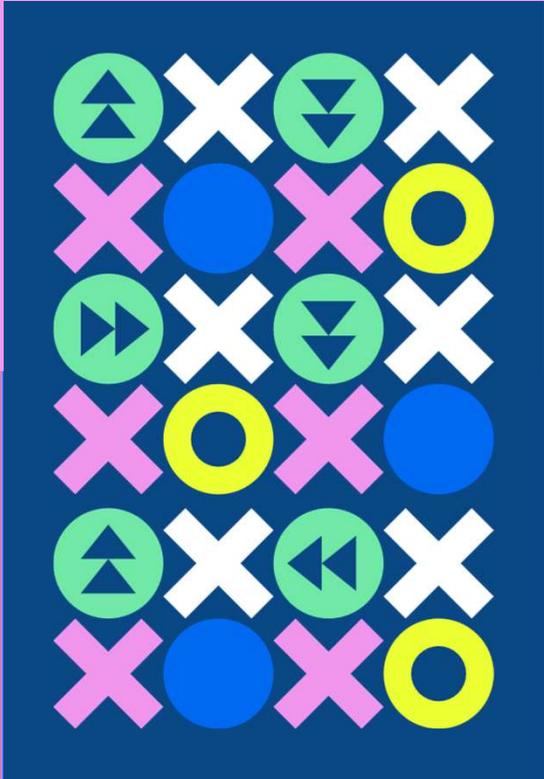


Your dream home is within reach!

At [readynest.com](https://readynest.com), you'll find a wealth of knowledge for homebuyers just like you.

SOURCE: 2023 NAB Home Buyers and Sellers Generational Trends

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# #2 Know your playbook

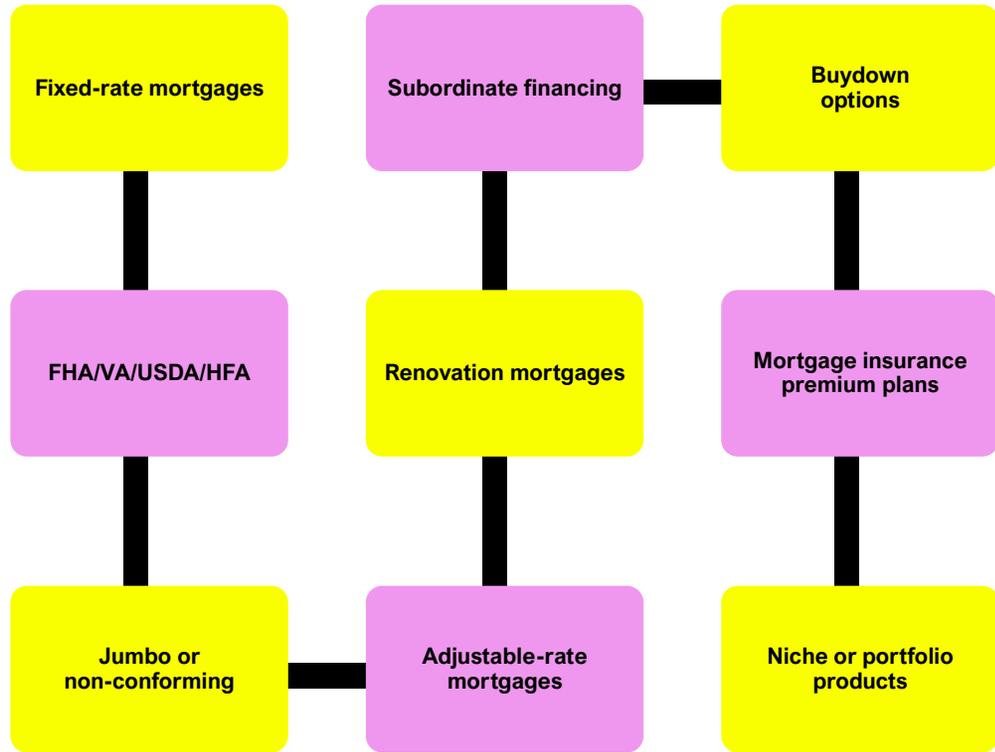
Financing options &  
transactional limitations

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PLAYBOOK

# All financing options



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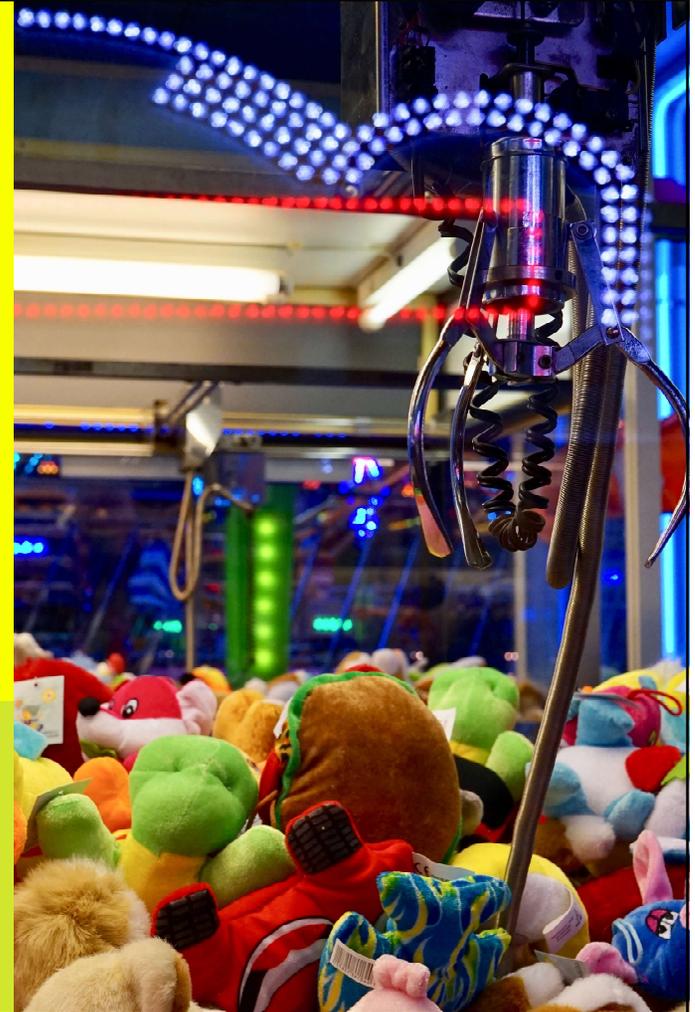
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PLAYBOOK

# Loan purpose

- Purchase
- Construction
- Refinance

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PLAYBOOK

# Refinance options

## Rate and term refinance

- No cash-out
- Limited cash-out (LCOR)

## Cash-out

- Delayed financing
- Debt consolidation

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## PLAYBOOK

# Limited cash-out vs. no cash-out

## FNMA – Limited cash-out refinance (LCOR)

## FHLMC – No cash-out refinance

Pay off unpaid principal balance of existing first mortgage plus closing costs and prepaids  
 Pay off an existing HELOC **first mortgage** regardless of draw history if HELOC is in first lien position  
 Pay off subordinate liens used *in their entirety* to purchase the property

Cash back proceeds up to the greater of 1% of the Mortgage amount or \$2000.00

Buying out co-owner pursuant to an agreement – **allowed**

Buying out co-owner – **not allowed**  
 May be considered a special purpose cash-out

Payoff of late fees – **not allowed**

Payoff of late fees – **allowed**

Cannot pay real estate taxes if > 60 days delinquent

Delinquent property taxes may not be paid  
 with the proceeds of the “no cash-out”

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## PLAYBOOK

# Cash-out refinance

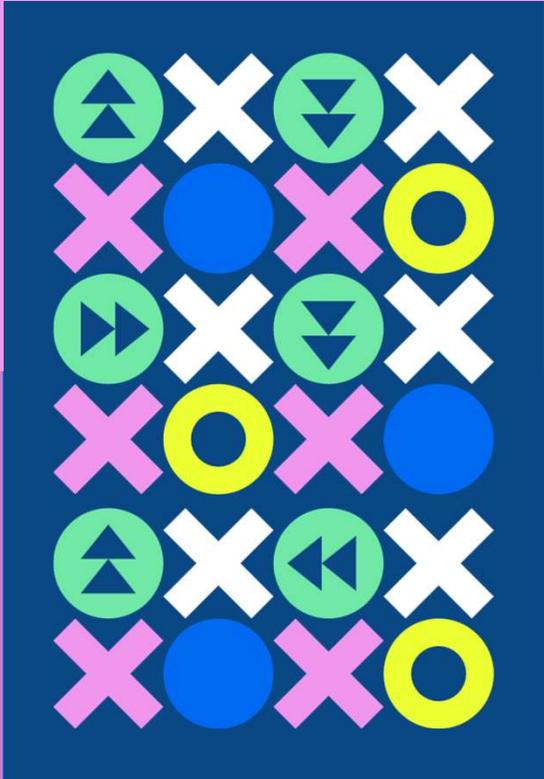
## Acceptable uses

- Used to pay off existing mortgage loan
- 12 mos. seasoning at time of refinance (doesn't apply to subordinate liens being paid off)
- At least 1 borrower on title 6 mos. prior to disbursement of new loan (outside of inheritance or legal award)
- Delayed Financing
- Properties listed for sale must be off-market before disbursement\*

\*Guideline requirement has been known to change

## Ineligible transactions

- Mortgage subject to temporary rate buydown
- Portion of proceeds used to pay off unseasoned land contract
- May be ineligible if loan amount includes delinquent real estate taxes
- Check investor guidelines for maximum cash-out amounts



# #3 Coaching

Guiding the  
borrower through  
the loan process

## **Play the long game – Work smarter not harder**

### **Educated Borrowers**

3x more  
likely to  
close

### **Empowered Borrowers**

4-5x more  
likely to refer  
others

### **Referral Borrowers**

60 – 80%  
conversion  
rate

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COACHING

# Providing the world map

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Set expectations in order to meet them



Provide a process road map



Introduce the team



Go over time frames



Explain documentation expectations



Agree on how you will communicate

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## COACHING

## Provide takeaways

- Present a loan product comparison
- Supply appropriate resources
- Provide written bullet-pointed documentation requests
- Offer mortgage FAQs
- Give periodic updates

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COACHING

# Provide a “what not to do” list

[mgic.com/mortgage-connects/9-pitfalls-that-can-trip-up-your-loan-closing](https://mgic.com/mortgage-connects/9-pitfalls-that-can-trip-up-your-loan-closing)



## 9 PITFALLS that can trip up your loan closing.

Just because you're preapproved doesn't mean your loan is a done deal. Lenders don't like changes to the financial information you submitted on your loan application.



**AVOID** these mistakes so you don't jeopardize your loan approval:

- 1 Don't make a big-ticket purchase.**  
Could deplete cash reserves or limit ability to repay.
- 2 Don't quit or switch your job.**  
Makes it harder to verify income stability.
- 3 Don't open or close lines of credit.**  
Lenders may see you as a riskier borrower.
- 4 Don't pay bills late.**  
Dings your credit score.
- 5 Don't ignore questions from your lender or broker.**  
Could delay or postpone the closing date.
- 6 Don't let someone run a credit check on you.**  
Inquiries can lower your credit score.
- 7 Don't make large deposits into your accounts.**  
Unverified deposits may raise questions.
- 8 Don't change bank accounts.**  
Slows down verification.
- 9 Don't take out or co-sign any new loans.**  
Increases debt-to-income (DTI) ratio and can limit ability to repay.

### What should you DO?

- Maintain the status quo
- Avoid making financial changes
- Enjoy yourself when you become a homeowner!

If you have concerns, consult your lender.



Discover more about the mortgage process, including closing your home loan, at [readynest.com](https://readynest.com)

# #4 Understand the house rules

Differences between FNMA and FHLMC

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## HOUSE RULES

# Key differences

TOPIC	FNMA	FHLMC
<b>Alimony</b>	Alimony payment can be considered as monthly debt OR deducted from the borrower's income for DTI calculation	Alimony payment must be deducted from borrower's income for DTI calculation
<b>Buying out co-owner</b>	Considered limited cash-out refinance	Considered cash-out refinance
<b>Collections</b>	2- to 4-unit properties or second homes: Anything exceeding \$5,000 must be paid off Investment: Individual collections of \$250 or aggregate of \$1,000 must be paid off	No written policy as long as collection does not affect first lien position
<b>Mortgage payment not reported on credit report</b>	Requires verification of payment history	Does not require verification of payment history with LPA® Accept
<b>Rental income reported on IRS Form 8825</b>	Treatment is based on ownership percentage	Treated as self-employed income regardless of ownership interest



## HOUSE RULES

# Key differences (continued)

TOPIC	FNMA	FHLMC
Self-employment documentation	DU determines # of years of tax returns needed. Business returns may be waived under certain conditions	Years of self-employment/business ownership determines documentation requirements
Secondary self-employment loss	Not required to be considered	Review pages 1 & 2 of 1040s and consider if borrower qualifies with loss
Use of business assets	No specific policy on review of large deposits into business accounts	Policy to document 2 months bank statements and to determine if deposits are typical
Student loans in deferment or forbearance	Use 1% of outstanding balance or fully amortizing payment	Use 0.5% of the outstanding balance
Student loan cash-out option	Allows for payoff of student loans as a cash-out transaction, but priced as R/T	N/A



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## HOUSE RULES

## Key differences (continued)

TOPIC	FNMA	FHLMC
<b>Interested Party Contributions</b>	Calculated from the sales price	Calculated from the value (lesser of sales price or appraised value)
<b>Second Homes</b>	Must be suitable for year-round occupancy	Permits second homes with seasonal limitations on year-round occupancy with one similar comparable
<b>Wedding/ Graduation gifts</b>	Considered large deposits	Considered gifts
<b>ADU rental income</b>	Rental income from an ADU is limited to principal residence purchase & R/T. Income from only one ADU	ADU rental income is acceptable for subject and non-subject properties. Non-subject property allows rental income from multiple ADUs
<b>Sale of Personal Assets</b>	Document ownership, transfer & receipt. Verification of value of asset required if proceeds > 50% of total qualifying income	Signed bill of sale and transfer of ownership & receipt



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PLAYBOOK

# When should I consult the rules?

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- Parent is a non-occupant co-borrower on the transaction
- Borrower does not have a credit score
- Purchase of property with an ADU
- Borrower wants to use cryptocurrency for closing
- Borrower is on temporary leave
- Borrower is starting a new job after the loan closes
- Property is unique

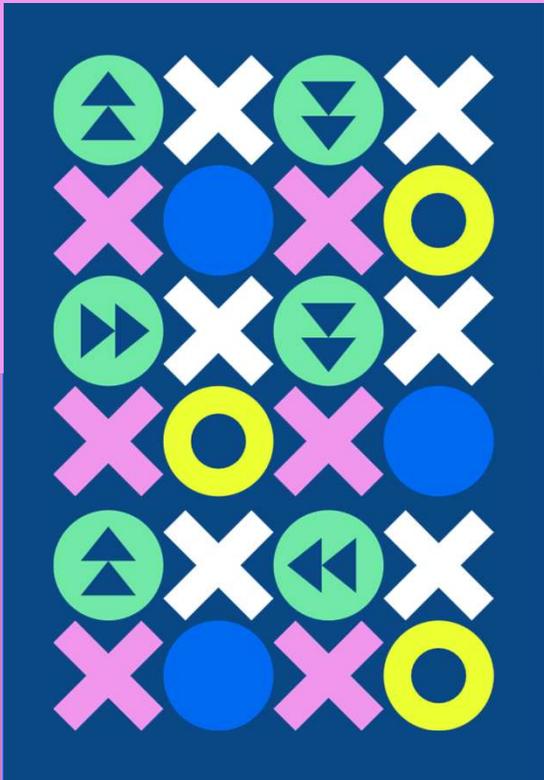
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# #5 Top defects & remedies

Avoiding pitfalls



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TOP DEFECTS & REMEDIES

**“THE PAST SHARPENS  
PERSPECTIVE,  
WARNS AGAINST  
PITFALLS, AND HELPS  
TO POINT THE WAY.”**

**Dwight D. Eisenhower**



## TOP DEFECTS &amp; REMEDIES

# Loan application

**COMPLETION**

- Declarations incomplete
- HMDA information incomplete
- Missing SEB indicators
- Missing employed by family indicator
- Property address inconsistencies
- Undisclosed liabilities

**DOCUMENTATION**

- Undisclosed liabilities
- Debts not paid off when indicated
- Prior derogatory information not documented
- File inconsistencies
- Property address inconsistencies
- Omission of debts not documented

**ELIGIBILITY**

- Excessive LTV/CLTV/HCLTV ratios
- Misrepresentation of occupancy (investment or primary)
- Application not fully executed
- Program not eligible or offered
- Borrower not eligible for program
- Property not eligible for program

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# Avoiding top 1003 defects

- Missing SEB indicators
- Missing employed by family indicator
- Occupancy discrepancies

## TOP DEFECTS &amp; REMEDIES

# Credit

**COMPLETION**

- Expired documents
- Not addressing SSN, address or employment history discrepancies
- Fraud alerts not addressed or mitigated
- Mortgage payment history missing, defective or unacceptable
- Erroneous credit information not addressed

**DOCUMENTATION**

- Disputed tradelines
- Minimum credit score requirement not met
- Outstanding collection, non-mortgage charge-offs or past-due balances
- Outstanding judgements or liens
- Significant derogatory credit event – waiting period not met
- Unacceptable mortgage history

**ELIGIBILITY**

- SSN discrepancy not addressed or verified
- Fraud alerts not addressed or mitigated
- Address history conflicts with application
- Employment history conflicts with application
- Missing monthly payment(s) not verified

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# Avoiding top credit defects

- Undisclosed liabilities
- Not addressing SSN, address or employment history discrepancies
- Not addressing fraud alerts

## TOP DEFECTS &amp; REMEDIES

# Income

**CALCULATION/ANALYSIS**

- Incorrect base calculation
- Incorrect OT, bonus, commission or other income calculation
- Incorrect SSI gross-up
- Incorrect rental income/loss
- History of second job unacceptable
- Incorrect SEB cash flow
- Expired documentation

**DOCUMENTATION**

- Employment offer requirements not met
- Expired documentation
- Income not documented
- Age of tax return requirements not met
- Multiple jobs not documented
- Employed by family member or interested party not documented

**ELIGIBILITY**

- Continuance unacceptable
- History of second job unacceptable
- History of SEB unacceptable
- History of OT, bonus, commission or other not met
- Other income source unacceptable

# Avoiding top income defects

- Borrower not employed
- Incorrect income calculation – rental income/loss
- Earnings trend not considered when evaluating variable income

## TOP DEFECTS &amp; REMEDIES

# Assets

**CALCULATION/ANALYSIS**

- Borrower not confirmed as account holder
- Insufficient assets for 30-day charge accounts
- Insufficient assets to close
- Gift guidelines not met
- Insufficient reserves
- Large deposits not addressed
- Expired documentation

**DOCUMENTATION**

- Expired documentation
- Documentation incomplete or illegible
- Borrower not confirmed as account holder
- Earnest money missing
- Gift letter missing
- Liquidation of asset missing
- Net proceeds missing

**ELIGIBILITY**

- Gift funds unacceptable
- Gift on investment not allowed
- IPC exceeds borrower's costs
- IPC exceeds allowed percentage
- Borrower minimum contribution not met
- Source of funds unacceptable

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# Avoiding top asset defects

- Missing gift documentation
- Insufficient assets to close
- Large deposits not addressed

## TOP DEFECTS &amp; REMEDIES

# Appraisal/sales contract

**DESKTOP APPRAISAL**

- Expired desktop appraisal
- Ineligible for desktop appraisal
- Missing desktop exhibits
- Wrong form based on desktop requirements

**GENERAL APPRAISAL REQUIREMENTS**

- Appraisal on wrong form
- Failure to report sales contract information in appraisal
- Failure to use 3 comparable sales
- Ineligible for appraisal waiver
- Excess land
- Appraisal incomplete or missing required attachments
- Inspections not completed

**SALES CONTRACT**

- Missing pages
- Missing all counteroffers
- Personal property included in offer
- Sales concessions not provided or addressed, yet CD shows IPC

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# Avoiding top appraisal defects

- Ineligible property – safety, soundness and structural integrity
- Subject Physical Features Reported inaccurately – Condition/Quality of Construction
- Missing Completion report or 1004 D alternative

# Are you still learning?

## Let's Play . . .



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# Sharpen your skills

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**Contact your account manager**

[mgic.com/contact](https://mgic.com/contact)

**Watch a tutorial from MGIC's Magic Minutes**

[mgic.com/training/magic-minutes-training-series](https://mgic.com/training/magic-minutes-training-series)

**Listen to MGIC training on demand  
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**Thanks for  
teaming  
up with us**

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