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US Mortgage Fundamentals Cheat Sheet

Quick reference for key concepts

A quick-reference guide covering the essential concepts of US mortgage underwriting — loan types, key ratios, documentation, and AUS. Perfect for last-minute revision before interviews or as a daily desk reference.

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Loan types

Type	Description	Key feature
Conventional	Non-government-backed loan	Conforms to Fannie/Freddie guidelines
FHA	Federal Housing Administration	Low down payment (3.5%), up to 96.5% LTV
VA	Department of Veterans Affairs	For eligible veterans, 0% down possible
Jumbo	Non-conforming loan	Exceeds conforming loan limits
USDA	Rural Development loan	For eligible rural areas, 0% down

Key ratios

DTI (Debt-to-Income Ratio)

Measures monthly debt obligations against gross monthly income. Front-end (housing) ratio = PITIA ÷ gross monthly income. Back-end (total) ratio = (PITIA + all other debts) ÷ gross monthly income. Target: ≤43% back-end for most conventional loans (AUS may allow higher with compensating factors).

LTV (Loan-to-Value)

Measures the loan amount against the property value. LTV = loan amount ÷ appraised value. Conventional: typically 80% LTV without PMI; up to 97% with PMI. FHA: up to 96.5% LTV.

CLTV (Combined LTV)

Includes all liens on the property. CLTV = (first mortgage + second mortgage) ÷ appraised value. HCLTV (Home Equity Combined LTV): used when a HELOC is present, considers the drawn portion of the line.

Key documents

Document	Purpose
1003 (URLA)	Uniform Residential Loan Application — the standard application form
Credit report	Shows borrower's credit history, scores, and tradelines
W-2 / Paystub	Verifies employment and income for W-2 borrowers
Tax returns (1040)	2 years required for self-employed or complex income
Bank statements	Verifies assets and sources of funds
Appraisal (1004)	Independent valuation of the property
Title commitment	Confirms property title and any liens
AUS findings	DU/LPA output — approve/eligible or refer/ineligible

AUS (Automated Underwriting Systems)

Desktop Underwriter (DU) — Fannie Mae's AUS. Loan Product Advisor (LPA) — Freddie Mac's AUS. Common findings: Approve/Eligible (loan meets guidelines), Refer/Ineligible (needs manual review or doesn't qualify). Findings come with conditions that must be met.

Underwriting decision

- **Approve** — loan meets guidelines, issue conditions for clear-to-close
- **Suspend** — more information required before a decision
- **Deny** — loan does not meet guidelines; adverse action notice issued

Income types

- **W-2 income** — base salary, bonus, overtime (2-year history for variable)
- **Self-employed** — Schedule C, K-1, 1120/1120S (2-year average)
- **Rental income** — from investment properties (75% of rent used for vacancy/maintenance)
- **Asset income** — interest, dividends, retirement distributions

Disclaimer

This cheat sheet is for educational purposes only. Underwriting guidelines vary by lender, loan type, and GSE updates. Always refer to current selling guides and internal policies. VertexIT training covers these concepts in depth with case-study based practice.