

## Extenuating Circumstances

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Extenuating circumstances are nonrecurring or isolated events or sets of events that are beyond the borrower's control that result in a sudden, significant, and prolonged reduction in income or a catastrophic increase in financial obligations. Potentially acceptable extenuating circumstances include:

- A loss of employment or loss of income that causes a reduction in the borrower's household income of 20% or more for at least 6 months
- A serious illness with a corresponding loss of income
- Death of a co-wage earner or a close family member that causes serious expenses for the borrower
- Severe and sudden medical expenses

**Note:** *Divorce is not an eligible extenuating circumstance*

If a borrower claims that derogatory information is the result of extenuating circumstances, the DE underwriter must substantiate the borrower's claim. Examples of documentation that can be used to support extenuating circumstances include:

- Documents that confirm the event such as a copy of a divorce decree, medical reports or bills, notice of job layoffs, job severance papers, etc.
- Documents that illustrate factors that contributed to the borrower's inability to resolve the problems that resulted from the event such as a copy of insurance papers or claim settlements, property listing agreements, lease agreements, tax returns (covering the periods prior to, during, and after a loss of employment), etc.

The DE underwriter must obtain a written explanation from the borrower explaining the relevance of the documentation. The written explanation must support the claims of extenuating circumstances, confirm the nature of the event that led to the bankruptcy or foreclosure-related action, and illustrate that the borrower had no reasonable options other than to default on his or her financial obligations. The written explanation may be in the form of a letter from the borrower, an email from the borrower, or some other form of written documentation provided by the borrower.