

RD AN No. 3967 (1980-D)
April 8, 2005

TO: All State Directors
Rural Development

ATTENTION: Rural Housing Program Directors, Rural Development Managers,
Guaranteed Rural Housing Coordinators, and Community Development
Managers

FROM: Arthur A. Garcia *(Signed by Arthur A. Garcia)*
Administrator
Rural Housing Service

SUBJECT: Single Family Housing Guaranteed Loan Program (SFHGLP)
Applicant Credit History Verification

PURPOSE/INTENDED OUTCOME:

The purpose of this Administrative Notice (AN) is to elaborate upon what forms of credit history and current debt verifications are acceptable for loans guaranteed under the SFHGLP. The intended outcome of this AN is to establish that the Rural Housing Service (RHS) will accept similar verification methodologies currently acceptable to the residential mortgage industry, secondary markets, and other Federal agencies.

COMPARISON WITH PREVIOUS AN:

This AN replaces AN No. 3831 dated March 7, 2003.

EXPIRATION DATE:
April 30, 2005

FILING INSTRUCTIONS:
Preceding RD Instruction 1980-D

BACKGROUND:

An essential component to mortgage lending is to determine what current debt payments a loan applicant already is obligated to make, evaluate the applicant's credit history, and to establish the applicant's willingness and ability to repay the additional credit obligation represented by the requested home mortgage loan.

Information lenders use to make applicant credit evaluations is typically obtained from one of the following sources:

- In-File Credit Reports: An in-file credit report is issued by one credit repository or credit reporting agency. It contains "as is" information as of the last date reported by the credit grantor subscribing or reporting to the credit repository. No information is updated or re-verified by the credit repository as a result of the mortgage credit inquiry.
- Residential Mortgage Credit Reports (RMCR): A RMCR contains merged credit information from at least two national repositories. The consumer reporting agency or bureau supplying the RMCR typically uses its best efforts to re-verify accounts directly with creditors (if the account is reported to have a balance but was updated by the creditor over 90 days from the date of the credit report). The consumer reporting agency also attempts to verify the applicant's employment and residence history. The consumer reporting agency interviews the applicants when the lender has incomplete information or when it discovers information that indicates the possible existence of undisclosed credit obligations or public records.
- Merged, Tri-Merged, or Multi-Merged Credit Reports (MMCR): A MMCR is issued by a credit repository or consumer reporting agency and includes the in-file credit report information from at least two credit repositories. Merged credit reports are also known as tri-merge credit reports if the merged report contains in-file credit report information from three credit repositories.

The MMCR must identify all the credit repositories whose information was merged into the report. The credit information from each credit repository may be presented in their entirety on the MMCR, or the consumer reporting agency may eliminate duplicate records through an automated merge process. Duplicate information need not be repeated. However, if the duplicate information is not exactly the same on each report, the MMCR must either repeat the information or include the most derogatory of the duplicate information that pertains to payment history and or current payment status.

The MMCR, in effect, is an adaptation of the RMCR. Substantially all the information supplied on an RMCR, which is not on an MMCR (i.e. income and employment verification), is already obtained and verified independently by lenders under current procedures.

- Non-Traditional Mortgage Credit Reports (NTMCR): A NTMCR is developed by a credit reporting agency and is designed to assess the credit history for borrowers without the types of trade references normally appearing on a RMCR or MMCR. NTMCRs are typically used for those prospective borrowers who have not yet established a credit history or who do not use traditional credit. A NTMCR may be used either as a substitute for an RMCR or MMCR for those borrowers without a credit history with traditional credit grantors, or to supplement RMCR's or MMCR's that do not have sufficient traditional credit references reported. An NTMCR may not, however, be used to enhance the credit history of borrowers with poor payment records. It may not be used to offset derogatory references found in the borrower's RMCR or MMCR.

If the information obtained through the RMCR or MMCR is not available or not sufficient for the lender to make a prudent underwriting decision, the lender may use an NTMCR that documents all available nontraditional credit references. Non-traditional credit references may include:

1. utility payment records (if utilities were not included in the rental payment);
2. rental payments;
3. insurance payments (excluding those paid through payroll deductions) such as medical, automobile, life and household or renter's insurance;
4. payments to child care providers;
5. school tuition; payments to local stores;
6. payments for the uninsured portions of any medical bills;
7. or any other reference which gives insight into the applicant's willingness to make periodic payments on a regular basis for credit obligations.

Alternatively, rather than order an NTMCR from a consumer reporting agency, a lender may develop its own nontraditional credit history for a proposed applicant provided that the analysis includes the types of references, when available, listed above. The lender should consider only those types of credit that require the applicant to make periodic payments on a regular basis.

IMPLEMENTATION RESPONSIBILITIES:

In keeping with the standards of the mortgage industry, the secondary markets, and the other Federal agencies administering insured or guaranteed single family housing loan programs, RHS field staff reviewing requests for guarantees under the SFHGLP should accept MMCRs, NTMCRs, as well as RMCRs for purposes of RD Instruction 1980-D, Section 1980.353(e)(4).

RMCRs, MMCRs and NTMCRs that meet the standards of Fannie Mae, Freddie Mac, Housing and Urban Development (HUD) and the Department of Veteran Affairs (VA) are acceptable for RHS purposes. In the case of MMCRs, tri-merged reports are preferred because they contain in-file credit report information from three separate credit repositories. Dual-merged credit reports are acceptable only if that is the extent of the data available for the borrower. If only one in-file report is available for the borrower, the lender must obtain an RMCR.

While an MMCR should prove sufficient for processing most loan applications, other circumstances that require the ordering of an RMCR include:

1. The borrower disputes accounts on the MMCR as belonging to someone else; or
2. The borrower claims that collections, judgements, or liens reflected as open on the MMCR have been paid and cannot provide separate documentation supporting this; or
3. The borrower claims that certain debts shown on the MMCR have different balances or payments and cannot provide current statements (less than 30 days old) attesting to this fact; or
4. The lender's underwriter determines that it would be prudent to utilize a RMCR in lieu of an MMCR to properly underwrite the loan.

Rent History

Some first time homebuyers simply do not have a verifiable housing or rent payment history. In such cases, a rent history is not required. If the applicant's Fair Isaac and Company (FICO) credit score is under 660 and the applicant has a rent payment history, the lender should obtain a rent payment reference either as part of the credit report, directly from the landlord, or through cancelled checks covering the most recent 12 month period prior to the loan application. If the applicant's FICO score is over 660, there is no need to verify an applicant's rent payment history.

State Offices with questions regarding this AN should contact Joaquín Tremols or Robert Keyes at (202) 720-1452.