

US DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

April 29, 2008

MORTGAGEE LETTER 2008-11

SUBJECT: Nontraditional Credit Verification and Evaluation

FHA published a significant update regarding the use of Nontraditional Credit with FHA loans.

1. These underwriting changes are directed at borrowers with limited or no traditional credit, where the use of nontraditional credit, e.g. rent and utility payments, is used to give a better picture of the borrower's payment history with creditors. Please note that the definition of "limited traditional credit" will vary among underwriters.

2. Borrowers with limited or no traditional credit must have a minimum of 3 alternative trade lines with a 12-month history. One of the 3 must be rent or housing utility payments, i.e., gas, electric, water, cable, land-line phone.

3. Borrowers with no traditional credit and no rent or utility accounts will need:

- Two months cash reserves from their own funds (gifts are not allowed to meet this requirement);
- Ratios of 31% (for housing expense to income ratio) and 43% (for total debt to income ratio) cannot be exceeded; and
- No exceptions will be granted.

4. Additional underwriting criteria for nontraditional credit are as follows:

- No history of delinquency on rent payments;
- No more than 1 x 30 day late payment in the last 12 months on all other alternative trade lines;
- No collection or judgments filed within the last 12 months (excludes medical collections, which are evaluated by the underwriter); and
- All alternative trade lines must have a 12-month history.