

Section B3-5.4, Nontraditional Credit History



B3-5.4-01, Nontraditional Mortgage Credit Reports (08/21/2012)

Introduction

This topic contains information on nontraditional mortgage credit reports, including:

- Overview
 - Unacceptable Uses
 - Requirements for Consumer Reporting Agencies
 - Borrowers with Disabilities
 - Non-U.S. Citizen Borrowers
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Overview

If a borrower does not have the types of credit that would appear on traditional credit reports, or if the borrower does not have a sufficient number of credit references to develop a traditional credit report, the lender may use a nontraditional mortgage credit report.

The lender should inform the borrower that a nontraditional mortgage credit report may be developed if information obtained through the standard credit report is not sufficient for the lender to make an underwriting decision. The lender must use its own judgment in determining whether the references on the standard credit report are sufficient for making underwriting decisions without ordering a nontraditional mortgage credit report. Nontraditional mortgage credit reports must be evaluated under the same standards as those used to assess traditional credit history.

Note: For certain loan transactions, one or more borrower(s) are required to have traditional credit as evidenced by a credit score. See B3-5.1-01, General Requirements for Credit Scores.

Unacceptable Uses

Nontraditional mortgage credit reports are not acceptable in the following situations:

- When the lender is able to obtain a credit score for the borrower despite limited use of credit, and that score is acceptable given the overall risk of the mortgage.
- With the exception of MCM, when the borrower has a sufficient amount of credit to obtain a credit score and the representative credit score is less than the minimum required. The lender may not establish an acceptable credit profile through the development of a nontraditional mortgage credit report. See B5-6-03, MyCommunityMortgage Underwriting Methods and Requirements for additional information about MCM borrowers with low credit scores.
- When the borrower's traditional credit history indicates derogatory references, such as late payments, collection accounts, or judgments. Nontraditional mortgage credit report cannot be used as a means to offset derogatory references or enhance a poor credit history with the traditional providers of credit.
- When the borrower has no credit history. Nontraditional mortgage credit reports cannot be used to artificially create a credit history.

Requirements for Consumer Reporting Agencies

A consumer reporting agency must meet the following requirements when preparing a nontraditional mortgage credit report:

- It must check all three major credit repositories in the initial attempt to verify the borrower's credit history.
- It must conduct an informational interview with the borrower to identify all of the different sources from which the borrower obtained credit in one form or another over the most recent past 12 months.

If the lender obtained a listing of the borrower's nontraditional credit sources when the mortgage application was completed, the consumer reporting agency does not need to conduct the interview. Instead, the lender must immediately contact the individual credit providers to verify the borrower's payment histories.

- It must consider only the types of credit that require borrowers to make periodic payments on a regular basis (intervals must be no longer than every three months).

- It must pass on all information collected after contacting all credit references provided by the borrower.
- It must specify whether or not the reports meet Fannie Mae criteria for nontraditional mortgage credit reports.

Borrowers with Disabilities

If a borrower with disabilities does not have the types of credit that would appear in a traditional credit report, the lender may use documentation provided by a court-appointed guardian or by a Social Security Administration (SSA) representative payee, provided that this party:

- manages the borrower's financial transactions,
- maintains records on the borrower's behalf, and
- uses credit accounts held jointly in the name of the person with disabilities to pay financial obligations.

The lender can use the documentation provided either to request a nontraditional credit report from a consumer reporting agency, or to establish a nontraditional credit history for the borrower in accordance with the criteria presented in B3-5.4-03, Verification and Documentation of Alternative Credit.

Non-U.S. Citizen Borrowers

If a non-U.S. citizen borrower does not have enough tradeline references in the United States to satisfy Fannie Mae requirements, the lender must use credit references from foreign countries to achieve the required number of seasoned credit references.

Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

Announcements	Issue Date
Announcement SEL-2012-07	August 21, 2012
Announcement 09-12	May 4, 2009

