

Understanding Credit Reports and Credit Scoring

Participant's Manual

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Session Overview

Credit 101 is designed to help individuals understand their role and responsibilities when viewing credit reports.

Upon completion of this course, attendees will be able to effectively:

- Understand Credit Report Types
- Review and Analyze Credit Reports
- Obtain a clear understanding of Credit Scoring Basics
- Gain knowledge of the legal requirements of FICO® Score
- Understand Agency Credit Guidelines

The Credit Report

A credit report is a record of the borrower's credit activities. The report allows you to review the borrower's current liabilities and their payment history.

There are two different types of credit reports typically used in the mortgage industry.

- **An in-file credit report** is credit data received directly from a national credit repository/bureau. The information is not manually verified. It is verified via a process at each bureau when receiving data.
- **A tri-merge credit report** is obtained from a credit reporting agency and contains data collected from three national credit repositories/bureaus.

Requesting the Credit Report

Ordering a consumer's credit report.

Make sure when you order any type of credit report you-

- Get the complete legal name of the borrower
- Use the correct spelling of both the first and last name
- Identify any alias the borrower may have
- Confirm whether the borrower uses any generation suffix (Jr., III...)
- Obtain a previous address if the borrower has been at the current address for less than 2 years.

Only businesses or individuals with a "permissible purpose" can access a consumer's credit report. Consumers must be fully aware that their credit will be accessed and have granted permission to do so.

Any person who knowingly or willfully obtains a consumer report from a consumer reporting agency under false pretenses, or any officer or employee who knowingly or willfully provides information concerning an individual from the agency's files to a person not authorized to receive that information shall be fined or imprisoned not more than 2 years, or both.

Follow your company's policies and procedures on requesting a consumer's permission and accessing their credit.

Credit Report Basics

Where is the Borrower's Credit Information Located?

Creditors voluntarily report the information to National Credit Repositories/Bureaus. A credit repository/bureau is a clearinghouse for credit history information. Credit grantors provide the bureau with factual information on their credit customer's payment history and credit usage. Each bureau assembles that information, along with public record information obtained from courthouses, into a file on each consumer.

There are three major credit bureaus:

Equifax:

PO BOX 740256 ATLANTA, GA 30374 (800) 685-1111 www.equifax.com/fcra

Experian:

PO BOX 2002 ALLEN, TX 75013 (888) 397-3742 www.experian.com/reportaccess

Trans Union:

PO BOX 1000 CHESTER, PA 19022 (800) 916-8800 www.transunion.com/myoptions

These national bureaus maintain centralized databases containing the credit records of more than 200 million Americans. Credit bureaus generate over a half-billion credit reports a year.

Some things to remember:

- Credit bureaus do not rate credit
- Credit bureaus do not approve or reject consumer applications for credit
- Credit bureaus only store and report the information

Who Prepares the Credit Report?

Consumer reporting agencies prepare credit reports. These agencies:

- Specialize in obtaining records on the credit history of almost everyone who has obtained credit.
- Contact national bureaus for credit history as well as identity verifications and fraud alerts

Primary Categories of Information

There are five primary categories of information:

1. Identifying information
 - Identifying info may include: Name, current & previous addresses, social security number, telephone number, date of birth and current and previous employers
2. Credit history
 - History of paying bills with credit grantors such as: retail stores, banks, finance companies and mortgage companies
3. Public records
 - All available public record information and judgments, foreclosures, tax liens and bankruptcies
4. Inquiries
 - Information about inquiries during the past 120 days. However, a consumer's copy will list all inquiries for the past 24 months.
5. Alert Information
 - Information showing active military duty alerts, fraud alert statements, and potentially mis-matched information.

What Details does the Credit Report Include?

For each tradeline listed it should include:

- Creditor's name
- Date the account was opened
- Amount of the highest credit or original loan amount
- Required payment amount and unpaid balance
- Current status of the account When the account was last active
- The date the information was sent to the repository
- Partial account number
- Type of account
- A tally of how many 30,60, and 90-day delinquencies are reporting
- How many months the account has been reported to the repository
- Any past due amount
- Payment history
- Any remarks or Special Comments to describe the loan situation (real estate loan, loan modification, in dispute, FNMA loan, etc.)

What the Credit Report Does Not Include

You should not see:

- Checking or savings account information
- Medical history
- Purchases made with cash

- Income Payment amounts made to accounts
- Previous balances held (unless it is a consumer version)
- Race, gender, religion, or national origin

Free Personal Credit Report

The Fair Credit Reporting Act (FCRA) and the Fair and Accurate Credit Transactions

(FACT) Act, provide that every consumer is entitled to one free* Personal Credit Report from each of the 3 national credit repositories/bureaus annually.

- Request Online : www.annualcreditreport.com
- Request by Phone : (877) 322-8228
- Request by Mail :

Annual Credit Report Request Service

P.O. Box 105281

Atlanta, GA 30348-5281

**It is important to note that a credit report is free, but a score is not. People often confuse and interchange "report" and "score".*

The Credit Report

Credit Report Legend Examples

Equal Credit Opportunity Act (ECOA)

Letter Code	Description
A	Authorized user - A joint account where the borrower is an authorized user, but has no contractual responsibility.
I	Individual account - An account solely for this borrower.
B	Individual account belonging to the borrower .
C	Individual account belonging to the co-applicant .
J	Joint account - An account for which both spouses are contractually liable.
M	Maker - An account where the borrower is primarily responsible, having a cosigner [or Co-maker] with no spousal relationship to assume liability if the borrower defaults.
P	Participating account - A joint account for which contractual liability cannot be determined.
S	Co-maker - An account for which the borrower is the co-signer , with no spousal relationship, who becomes liable if the primary signer [or Maker] defaults.
T	Terminated : A joint or cosigned account where the borrower is no longer associated with the account.
U	Undesignated account: An account that has not yet been designated.

WHOSE Codes

B: Account returns from repositories under borrower's name

C: Account returns from repositories under co-applicant's name

J: Account returns from the repositories under both applicant and co-applicant names

Account Type

MTG: Mortgage
 INST: Installation account
 AUTO: Auto loan
 CRCD: Credit card
 COLL: Account in collections
 REV: Revolving account
 OPEN: Open account
 EDU: Education account
 COSI: Co-signer account
 LEAS: Leasing account

Account Status

NO STATUS - no status
 CRCDLOST - credit card lost
 INACTIVE - account inactive
 DELETED - account deleted from report by credit agency
 AS AGREED - current/as agreed
 CUR WAS 30 - account was late more than 30 days previously and is now current
 CUR WAS 60 - account was late more than 60 days previously and is now current
 CUR WAS 90 - account was late more than 90 days previously and is now current
 CUR WAS 120 - account was late more than 120 days previously and is now current
 CUR WAS COLL - account was previously in collection and is now current
 CUR WAS REPO - account was previously in repossession and is now current
 CUR WAS BK - account was previously in bankruptcy and is now current
 CUR WAS FORE - account was previously in foreclosure and is now current
 PAID - account closed and paid off
 CLOSED - closed account
 TRANSFERRED - transferred account
 PD WAS 30 - account was late more than 30 days previously and is now paid and closed
 PD WAS 60 - account was late more than 60 days previously and is now paid and closed
 PD WAS 90 - account was late more than 90 days previously and is now paid and closed
 PD WAS 120+ - account was late more than 120 days previously and is now paid and closed
 DELINQ 30 - account currently late more than 30 days
 DELINQ 60 - account currently late more than 60 days
 DELINQ 90 - account currently late more than 90 days
 DELINQ 120+ - account currently late more than 120 days
 BANKRUPTCY - bankruptcy account
 PAY PLAN - account paying under payment plan
 REPOSESS - repossession
 FORECLOS - foreclosure
 SETTLED - settled
 VOL SUR - voluntary surrender
 CHARGE OFF - charge off
 COLLECTION - placed for collection
 PD COLL - paid collection
 PD WAS REPO - paid was repossession
 PD CHG OFF - paid was charge off
 PD FORECLO - paid was foreclosure
 CO NOW PAY - now paying/was charge off
 GOV CLAIM - claim filed with government for insured portion of balance on loan
 CLOS NP AA - closed/not paid as agreed
 SCNL - cannot locate consumer

The type of account on which the borrower owes can impact how the debt is calculated for mortgage lending

Rating Code Status

I = Installment
 R = Revolving
 M = Mortgage
 O = Open Account
 C = Closed

 1 = as agreed
 2 = 30 day late
 3 = 60 day late
 4 = 90 day late
 5 = settled
 7 = BK
 8 = repo/foreclosure
 9 = chargeoff/collection

Credit Report Tradeline Examples

Mortgage Tradeline Example

E C O N O M I C S E	W H O S E	CREDITOR	DATE REPORTED	DATE OPENED	CREDIT		PAST DUE	MO REV	30	60	90+	STATUS
					HIGH CREDIT OR LIMIT	BALANCE						
					DLA ACCT TYPE	TERMS						SOURCE
B	B	WASHINGTON MUTUAL FA ACCT000015	01/15	07/14 01/15	\$51000	\$50924 MTG 360 \$482	\$481	6	2	0	0	DELINQ 30 <u>XP/TU/EF</u>

A Mortgage Tradeline needs additional caution taken when reviewing

- The payment on the report typically represents the payment based on repaying the note. It does not include escrows of taxes and insurances that the mortgage servicer may be collecting.
 - Verify the complete obligation through-
 - Copies of the mortgage servicing monthly statement
 - Verify what, if any, escrows are being collected. Based on recent changes, Home Owners/Hazard policies may no longer be collected.
 - If mortgage loan is non escrowed or non-impounded, verification of current taxes and hazard insurance amounts are required
 - If property is a coop, condo or PUD, association dues must also be documented verified
- If an Automated Underwriting System (AUS) is being used, verify that any reported lates have been disclosed to the AUS.

B	B	CAP ONE BK ACCT000008	02/15	01/12 02/15	\$5219 REV	\$4379 MIN \$131	\$0	38	0	0	0	AS AGREED <u>XP/TU/EF</u>
---	---	--------------------------	-------	----------------	---------------	---------------------	-----	----	---	---	---	------------------------------



Each tradeline identifies which bureaus are reporting the information. The tradeline referenced above contains the reference XP/TU/EF. This indicates that all three of the bureaus, XP (Experian), TU (Trans Union) and EF (Equifax), had this information. The XP/TU/EF indicates that account data was obtained from all three, but does not mean that they all have the same data. Unmerging the data or reviewing a tradeline comparison report will show you how each bureau is reporting it.

- **Some Investors may require a minimum number of tradelines active and reported on behalf of your borrower.**
 - Example-Your underwriting manual states that each borrower must have a usable credit score consisting of a minimum of 3 open tradelines.
- **DU Version 10.0 will use trended credit data in the risk assessment.**
 - Trended data will include historical monthly data including: balance, scheduled payment, and actual payment amount that the borrower made
 - Initially, DU will only use the trended credit data on revolving credit card accounts for the most recent 24 months' payment history
 - This information enhances the DU risk assessment

E C C O A	W H O S E	CREDITOR	DATE REPORTED	DATE OPENED	HIGH CREDIT OR LIMIT	BALANCE	PAST DUE	MO REV	30	60	90+	STATUS		
				DLA	ACCT TYPE	TERMS						SOURCE		
C	C	NASA FEDERAL CREDIT 4807595050092646	02/16	04/13 02/16	\$12000 REV	\$11836 MIN \$237	\$0	35	0	0	0	R1 XP/TU/EF		
Trended														
			01/16	12/15	11/15	10/15	09/15	08/15	07/15	06/15	05/15	04/15	03/15	02/15
		Scheduled (\$)	240	221	223	216	219	221	224	227	230	217	220	222
		Actual (\$)	250	223	250	230	230	250	250	250	220	250	230	0
		Balance (\$)	11976	11003	11120	10792	10915	11045	11189	11333	11478	10811	10962	11093
			01/15	12/14	11/14	10/14	09/14	08/14	07/14	06/14	05/14	04/14	03/14	02/14
		Scheduled (\$)	220	223	225	223	220	218	200	203	205	208	-	-
		Actual (\$)	250	225	250	250	250	200	220	205	250	250	-	-
		Balance (\$)	10976	11120	11240	11116	10990	10870	9989	10118	10237	10392	-	-

No additional review of this information will be required initially.
Initially the trended credit data will only be reported by Equifax & Trans Union.

E C C O A	W H O S E	CREDITOR	DATE REPORTED	DATE OPENED	HIGH CREDIT OR LIMIT	BALANCE	PAST DUE	MO REV	30	60	90+	STATUS
				DLA	ACCT TYPE	TERMS						SOURCE
B	B	NCO FIN /99 ACCT000013	02/15	04/14 08/13	\$125 COLL	\$125 001 -	\$125	-	-	-	-	COLLECTION XP/TU/EF



Collection Accounts

Remember to include all collection amounts that are required to be paid in the total assets required.

Check products and program guidelines to verify if a collection must be paid off prior to or at closing - guidelines will vary from product to product.

It is important to note that a collection and a chargeoff are the same payment status, but are different account types. Be sure to check your guidelines for specific requirements.

PUBLIC RECORDS		
B B MONTGOMERY CO DISTRICT	File Date: 05/14	Plaintiff: MEDICAL PAYMENT DATA
Docket #: P000001	Amount: \$1,314	Action Type: JUDGMENT
Source: <u>XP</u>	Status Date: 05/14	Status: NOT SATISFIED

Public Records

Delinquent credit—including taxes, judgments, tax liens, mechanic's or materialmen's liens, and liens that have the potential to affect an Investor's lien position or diminish the borrower's equity—must be paid off at or prior to closing. Some exceptions exist based on the underwriting method (manual or AUS) and your Investor.

- See Investor Guidelines
 - <https://www.fanniemae.com/content/guide/selling/b3/6/07.html>
 - http://www.freddiemac.com/learn/pdfs/deliver/allregs_combined.pdf

INQUIRIES (LAST 120 DAYS)				
EF	B	01/14/15	CBUSA	FINANCE

Inquiries

Please check your company guidelines on how to address recent credit inquiries!

- Credit inquiries may indicate that the borrower has recently applied for new and/or additional credit.
- If the borrower has obtained new and/or additional credit, the amount of debt and the repayment amount must be considered in calculating the borrower's indebtedness (DTI).

CREDITORS		
ASSOC/CITI	110 LAKE DR, NEWARK DE 19702	800-533-5600
bank of america	"	800-421-2110
BANK OF AMERICA	400 CHRISTIANA RD, NEWARK, DE 19713	800-421-2110
BANKONEDE	"	
BK OF AMER	PO BOX 982238, EL PASO, TX 79998	800-421-2110
CAP 1 BANK	"	800-955-7070
CAPITAL 1 BK	11013 W BROAD ST, GLEN ALLEN VA 23060	800-955-7070
CAPITAL ONE BANK	PO BOX 85520, RICHMOND VA 23285	800-955-7070
CATO CORPORATION	PO BOX 34216, CHARLOTTE, NC 28234	704-554-8510
CATO'S	8100 DEMARK ROAD, CHARLOTTE, NC 28210	704-556-7018
CB/BEALLS	PO BOX 182789, COLUMBUS, OH 43218	
CBNA	P.O. BOX 6000, SIOUX FALLS, SD 57117	888-248-4465
CCB	P O BOX 5010 RM 1242 SEC 156, CONCORD, CA 94524	800-243-8766
CCB NA / CHEVRON CREDIT BK	POB 5010, CONCORD CA 94524	800-243-8766
CEDARHILLNBK	P O BOX 34216 8100 DENMARK RD, CHARLOTTE, NC 28234	704-556-7018

Creditor List

The Credit List may be useful if the borrower sees a discrepancy on their report and needs contact information. If any information has been reported inaccurately and needs to be revised, a Credit Supplement is typically required.

Please note that medical collections reported to Equifax will not contain the name or contact information for the collection agency. A consumer would have to contact Equifax directly to obtain that information.

How Long Will Items Remain on a Consumers Credit Profile?

The chart below references how long credit items will remain on the consumer's record. The timeframes do not indicate how long the items will impact (positively or negatively) a consumer's Credit Score.

Type	Limitation
Bankruptcy Chapter 7 or 11 & Non-discharged or dismissed Chapter 13	10 years from the date filed
Bankruptcy Chapter 13 (discharged)	7 years from the date filed
Suits & Judgments	7 years from date of entry or expiration of appropriate statute of limitations, whichever is longer
Tax Liens - PAID	7 years from date of payment*
Tax Liens - UNPAID	No limitation
Charged to Profit & Loss	7 years
Criminal Record Limitations	No Limitations on criminal conviction
Other Adverse Information	7 years

*Based on IRS Reporting

<http://blog.equifax.com/credit/faq-how-long-does-information-stay-on-my-credit-report/>

<http://www.experian.com/blogs/ask-experian/2015/01/04/when-bankruptcy-public-records-are-removed-from-your-credit-report/>

Credit Disputes

Consumer Disputes Fair Credit Reporting Act (FCRA)

- Changes to credit data must take place at the repository level in order for the information to affect the score. Consumers must write a letter of dispute regarding the erroneous information to the appropriate repository referencing the tradeline, account number(s), and the specifics of the reported error. Each bureau/repository has an online dispute method as well.
- Under the Fair Credit Reporting Act, a credit repository has 5 days from receipt of a written consumer dispute request to contact the appropriate credit grantor about the request. And 30 days, of the original repository notification, to receive a reply back.
- Within 5 days of completion of the investigation, the repository must send a written report to the consumer with its findings (and a copy of the revised report if there were any changes).

Consumer Disputes (FCRA) Outcomes: Consumer Disputes may result in three possible scenarios:

- No response from the creditor at all...the data is REMOVED
- Confirmation from the creditor...the data STANDS
- Revision by the creditor...the data is CHANGED
- In all cases, the consumer is NOTIFIED of the results.

For additional information please access the two websites referenced below-

[Federal Trade Commission \(FTC\) Guidance on Credit Disputes](#)

[CFPB Guidance on Credit Disputes](#)

Credit Scoring

Credit Scoring Basics

What is a Credit Score?

- A Statistical Model
- A Predictor of Future Performance Based on Prior Experience
- A Model Based on Known Performance
- A Scorecard Factoring in Many Characteristics

A Value Falling in a Range from approximately 300 to 850 in the mortgage industry. Several others have expanded/different ranges.

Scoring Models

The Scoring Models that are used in the mortgage industry were developed and are maintained by Fair Isaac Corp.

- FICO
 - The most common credit score in use was developed by Fair Isaac Corporation (FICO).
 - Evaluates the borrower's credit data
 - Assigns a "score" which predicts the borrower's likelihood to repay credit obligations

Benefits of Credit and Mortgage Scoring

- Scoring enables lenders to:
 - Achieve consistency & objectivity in underwriting
 - Identify high risk loans from a credit perspective
 - Bring efficiency, consistency and profitability to all aspects of the industry

Scores are indicators of risk and performance for the credit portion of the file. Underwriters continue to use their knowledge and experience, as well as agency guidelines to evaluate risk and make loan decisions.

What's In a Credit Score

According to [MyFico.com](https://www.myfico.com) a Credit Score is created based on data within 5 major categories:

1. Payment History
2. Amount Owed
3. New Credit
4. Length of Credit History
5. Types of Credit in Use

[What's In Your Score?](#)

How Scores are Calculated



[compare our PRODUCTS](#)[achieve my GOALS](#)[learn about SCORES](#)

Gardening your credit

Facts & fallacies

Credit reports

What's in my report

Credit Checks

How mistakes are made

Missing accounts

Fixing an error

Investigating

Fair credit reporting act

Equal credit opportunity act

Fair credit billing act

Fair debt collection practices

ID theft

Contacts and resources

Glossary

How my FICO Scores are calculated

FICO® Scores are calculated from many different pieces of credit data in your credit report. This data is grouped into five categories as outlined below. The percentages in the chart reflect how important each of the categories is in determining how your FICO Scores are calculated.

Your FICO Scores consider both positive and negative information in your credit report. Late payments will lower your FICO Scores, but establishing or re-establishing a good track record of making payments on time will raise your score.

How a FICO Score breaks down



Category	Percentage
Payment History	35%
Amounts Owed	30%
Length of Credit History	15%
New Credit	10%
Types of Credit in Use	10%

www.myfico.com

What Is Not In a Credit Score

- FICO Scores consider a wide range of information on your credit report. However, they do not consider:
 - **Your race, color, religion, national origin, sex and marital status.**
US law prohibits credit scoring from considering these facts, as well as any receipt of public assistance, or the exercise of any consumer right under the Consumer Credit Protection Act.
 - **Your age.**
Other types of scores may consider your age, but FICO Scores don't.
 - **Your salary, occupation, title, employer, date employed or employment history.**
Lenders may consider this information, however, as may other types of scores.
 - **Where you live.**
 - **Any interest rate being charged on a particular credit card or other account.**
 - **Any items reported as child/family support obligations.**
 - **Certain types of inquiries (requests for your credit report).**
Your scores do not count "consumer-initiated" inquiries – requests you have made for your credit report, in order to check it. They also do not count "promotional inquiries" – requests made by lenders in order to make you a "pre-approved" credit offer – or "administrative inquiries" – requests made by lenders to review your account with them. Requests that are marked as coming from employers are not counted either.
 - **Any information not found in your credit report.**
 - **Any information that is not proven to be predictive of future credit performance.**
 - **Whether or not you are participating in a credit counseling of any kind.**

Source- www.myFICO.com

What are the minimum requirements to generate a FICO Score?

- At least 1 account that has been open for a minimum of 6 months
- At least 1 undisputed account that has been reported to the credit bureau within the last six months
- No indication that the consumer is deceased

Why Didn't You Get A Perfect Score?

The Reason Codes will be included in the report when a credit score is ordered.

- Reason codes are listed in DESCENDING order of importance and are displayed with each score
- Reason codes show which area of the consumer's credit did not score as highly as possible. In some cases – these reasons highlight issues not associated with traditional “derogatory” information.
- These codes can be relayed back to the borrower to explain how they can change/improve their credit profile (over time)
- Score factors seem less “relevant” for higher-scoring consumers as they merely indicate the reason why they did not score HIGHER
 - See example on next page-

SCORE MODELS		
EQUIFAX/FICO CLASSIC V5 FACTA - LUIS T TESTCASE JR - 000000009		
SCORE: 486		
00038 - SERIOUS DELINQUENCY, AND DEROGATORY PUBLIC RECORD OR COLLECTION FILED		
00013 - TIME SINCE DELINQUENCY IS TOO RECENT OR UNKNOWN		
00018 - NUMBER OF ACCOUNTS WITH DELINQUENCY		
00034 - AMOUNT OWED ON DELINQUENT ACCOUNTS		
FA - NUMBER OF INQUIRIES ADVERSELY AFFECTED THE SCORE, BUT NOT SIGNIFICANTLY		
TRANSUNION/FICO CLASSIC (98) - LUIS T TESTCASE JR - 000000009		
SCORE: 531		
038 - SERIOUS DELINQUENCY, AND PUBLIC RECORD OR COLLECTION FILED		
013 - TIME SINCE DELINQUENCY IS TOO RECENT OR UNKNOWN		
002 - LEVEL OF DELINQUENCY ON ACCOUNTS		
010 - PROPORTION OF BALANCES TO CREDIT LIMITS IS TOO HIGH ON BANK REVOLVING OR OTHER REVOLVING ACCOUNTS		
FA - DEROGATORY INFORMATION WAS FOUND ON THE FILE, AND INQUIRIES IMPACTED THE CREDIT SCORE		
EXPERIAN/FAIR, ISAAC (VER. 2) - LUIS T TESTCASE JR - 000000009		
SCORE: 493		
38 - SERIOUS DELINQUENCY AND PUBLIC RECORD OR COLLECTION FILED		
20 - TIME SINCE DEROGATORY PUBLIC RECORD OR COLLECTION IS TOO SHORT		
13 - TIME SINCE DELINQUENCY IS TOO RECENT OR UNKNOWN		
10 - PROPORTION OF BALANCE TO HIGH CREDIT ON BANK REVOLVING OR ALL REVOLVING ACCOUNTS		
08 - TOO MANY INQUIRIES LAST 12 MONTHS		

Which FICO Models Do We Use In The Mortgage Industry?

Currently there are many FICO® Score versions. www.MyFICO.com

The chart below illustrates the many versions available.

Experian	Equifax	TransUnion
Most widely used version		
FICO® Score 8	FICO® Score 8	FICO® Score 8
Versions used in auto lending		
FICO® Auto Score 8	FICO® Auto Score 8	FICO® Auto Score 8
FICO® Auto Score 2	FICO® Auto Score 5	FICO® Auto Score 4
Versions used in credit card decisioning		
FICO® Bankcard Score 8	FICO® Bankcard Score 8	FICO® Bankcard Score 8
FICO® Score 3	FICO® Bankcard Score 5	FICO® Bankcard Score 4
FICO® Bankcard Score 2		
Versions used in mortgage lending		
FICO® Score 2	FICO® Score 5	FICO® Score 4

As per Fannie Mae and Freddie Mac guidelines, the specific models listed below are currently the only acceptable models. Although the most widely used FICO score is FICO Score 8 the mortgage industry is using a much earlier model version.

Agency Acceptable Models

- Equifax Beacon® 5.0;
- Experian®/Fair Isaac Risk Model V2SM; and
- TransUnion FICO® Risk Score, Classic 04.

New Credit

New Credit determines only 10% of a FICO Score yet it seems to be the most controversial category. New credit is not solely inquiries. It is only a part of what falls into "new credit".

Do mortgage inquiries lower a score?

Maybe! Most consumers will not see any score reduction, even though their inquiries may be considered. They may not produce a negative result!

- There are many different types of inquiries that will have different impacts within the different score models. The different types of inquiries are:
 - Soft Inquiries
 - Employment or Insurance are examples
 - Hard Credit Seeking Inquiries
 - Consumer applies for credit

Based on the current models used in the mortgage industry the following applies:

- **30-Day Buffer:**

No Mortgage inquiry within 30 days from the current inquiry is counted in the score. Only codes of same-type apply to the buffer. So mortgage inquiries won't consider other mortgage inquiries.

- **De-Dupe Periods (Depending on Score Version):**

- 14-days – All Auto inquiries within a rolling 14-day window count as 1 Auto inquiry; All Mortgage inquiries within a rolling 14-day window count as 1 Mortgage inquiry
- 45-days – All Auto inquiries within a rolling 45-day window count as 1 Auto inquiry; All Mortgage inquiries within a rolling 45-day window count as 1 Mortgage inquiry

For additional information on Understanding FICO Scores

http://www.myfico.com/Downloads/Files/myFICO_UYFS_Booklet.pdf



Legal Requirements

Legal Requirements of Fair and Accurate Credit Transaction Act (FACT Act)

- What must be disclosed or provided to the Consumer?
 - Consumer's current credit score
 - Range of possible credit scores under the model used
 - Up to five key factors that affected the score
 - Date the score was created
 - Name of the person/entity that provided the score
 - Notice to Home Loan Applicant

Legal Requirements: The Federal Reserve Board and Federal Trade Commission (hereinafter, the "Agencies") jointly adopted the Risk Based Pricing Rule ("Rule")

- When a Score and/or Credit Report is used in the determination of a credit decision a disclosure must be given to the consumer.

Agency Credit Guidelines

Credit Requirements when utilizing Automated Underwriting System (AUS)

Fannie Mae

Fannie Mae's Desktop Underwriter ® (DU ®).

- A tri-merge Credit Report is required.
- FICO scores must be requested for each borrower.
 - If one or two of the national credit repositories/bureaus do not contain any credit information for the borrowers who have traditional credit the credit report is still acceptable as long as:
 - Credit data is available from one repository
 - A credit score is obtained from that one repository, and
 - The lender requested a three in-file merged report.
- A Representative Score must be determined for Underwriting and Delivery of the mortgage file. Follow these steps.
 1. Fannie Mae recommends obtaining at least two credit scores for each borrower.
 2. Select a single applicable score for underwriting each borrower.
 - When two scores are obtained, choose the lower
 - When three scores are obtained, choose the middle score.
 3. If there is only one borrower, the single applicable score used to underwrite that borrower is the representative score for the mortgage. If there are multiple borrowers, determine the applicable credit score for each individual borrower and select the lowest applicable score from the group as the representative score.
- The Lender is required to ensure that the credit report data used by DU in its underwriting analysis is accurate. If the information cannot be corrected in a timely fashion a manual underwrite may be completed.
- DU can be utilized to underwrite loans for borrowers who do not have traditional credit and credit scores if at least one other borrower on the loan file has one or more credit scores and all of the following conditions are met:
 - The property must be a one-unit, primary residence, and all the borrowers will occupy.
 - Must be a purchase or a limited cash out refinance
 - The loan must meet the general loan limits.
 - The income used to qualify can't come from Self Employed income.

- The borrower with tradition credit & credit score must contribute more than 50% of the qualifying income.
- The representative score must meet certain requirements; see Fannie Mae's Selling Guide for current requirements.
 - <https://www.fanniemae.com/content/guide/selling/b3/5.1/01.html>
- Authorized User Accounts
 - DU considers authorized user accounts in its credit risk assessment. FICO scores may be impacted but DU's risk engine looks at the trade lines and makes a credit recommendation.
 - Lenders should review these types of accounts to ensure that they represent an accurate reflection of the borrower's credit history.
 - Lenders typically should underwrite without the benefit of these trade lines.
 - For additional guidance please review Fannie Mae guidelines at;
 - <https://www.fanniemae.com/content/guide/selling/b3/5.3/09.html>
- Disputed Tradelines
 - DU does not take the information on the tradeline into consideration as part of its overall credit risk assessment.
 - The lender is required to validate the information as accurate or inaccurate when a message alert is issued by DU.

Freddie Mac

Freddie Mac's Loan Product AdvisorSM.

- A tri-merge Credit Report or 3 In-File Reports are required
- FICO scores must be requested for each borrower.
- Identifying the Underwriting Score is achieved by;
 - If the borrower has two scores select the lowest
 - If three scores have been returned use the middle score
 - When the file has more than one borrower use the lowest of the individual underwriting scores.
 - http://www.freddiemac.com/learn/pdfs/uw/credit_scores.pdf
- For an Accept Mortgage and an A-minus Mortgage, Loan Product Advisor has determined that the Borrower's credit reputation is acceptable.
 - In all other Mortgages, the Seller must thoroughly evaluate the Borrower's credit reputation in accordance with the requirements set forth in this section and document in the Mortgage file the Seller's conclusion the reputation is acceptable.
- Authorized User Accounts
 - The Lender must disregard the FICO scores based on significant inaccuracies which include tradelines for accounts in which the borrower is not the primary account holder, but is listed as the authorized user. The lender does not have to disregard the FICO score if evidence in the file proves
 - Another borrower on the file owns the tradeline in question
 - The tradeline is owned by the borrower's spouse, or

- The borrower has been making payments on the account for the past 12 months.
- Inquires
 - Inquires may indicate the borrower has additional debt.
 - The lender must determine if the inquires within the previous 120 day period have resulted in additional credit.

Genworth

Simply Underwrite applies to eligible loans with a Desktop Underwriter® recommendation or Loan Product AdvisorSM risk classification. Contact your sales representative or the ActionCenter® at 800 444.5664 with any questions.

Effective January 1, 2017

Primary Residence – Purchase, Rate/Term Refinance and Construction-to-Permanent ³				
Property Type	Max LTV	Max Loan Amount ²	Min Credit Score	Max DTI
Single family (detached & attached), Condominiums, Cooperatives, Manufactured Housing ¹	97% ¹	\$424,100	620	Per DU & Loan Product Advisor SM
	95%	FHFA Maximum		
2 units	95%	\$543,000	720	45%
	85%	FHFA Maximum		
3 units ⁴	95%	\$656,350	720	45%
4 units ⁴		\$815,650		
Second Home – Purchase, Rate/Term Refinance and Construction-to-Permanent ³				
Single family (detached & attached), Condominiums, Cooperatives, Manufactured Housing ¹	90%	\$424,100 or FHFA Maximum	620	Per DU & Loan Product Advisor SM
Investment Property – Purchase and Rate/Term Refinance				
Single family (detached & attached), Condominiums	85%	\$424,100 or FHFA Maximum	720	45%

¹ Manufactured Housing is ineligible for 97% LTV.

² Unless otherwise noted, eligible loan amounts in AK & HI are \$636,150 for 1 unit, \$814,500 for 2 units, & \$850,000 for 3-4 units. DU High Balance and Loan Product Advisor Super Conforming are eligible to FHFA loan limits in all markets.

³ Construction-to-Permanent is ineligible with property types other than Single family (detached) or Manufactured Housing.

⁴ ARM loan types are ineligible for 3 - 4 units.

[Genworth Mortgage Insurance](#)

Let's Wrap It Up

- Thanks for attending.

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Notes Pages

Resource Addendum

- Resource A
- Resource B
- Resource C