

Question and Answers

TOPIC(S):

Credit, Derogatory, Conventional (Freddie Mac)

QUESTION:

What are the Freddie guidelines on charged off accounts? Can we exclude or do they have to include a 5% payment amount? Also, do we mark the liabilities as "paid" off or just leave payment as zero when we run them?

ANSWER:

Conventional guidelines do not require a 5% payment to be included, however, make sure to read the AUS carefully as they may require the account to be paid off in full. If it does require it to be paid you can not include a payment instead, it must be paid in full. Leave the liability payments at \$0 and mark them as liens.

Collection Accounts (TOTAL)

If the credit reports used in the TOTAL Mortgage Scorecard analysis show cumulative outstanding collection account balances of \$2,000 or greater, the mortgagee must:

- Verify that the debt is paid in full at the time of or prior to settlement using acceptable sources of funds.
- Verify that the borrower had made payment arrangements with the creditor and include the monthly payment in the borrower's DTI; or
- If a payment arrangement is not available, calculate the monthly payment using 5 percent of the outstanding balance of each collection and include the monthly payment in the borrower's DTI.
- Collection accounts of a non-borrowing spouse in a community property state must be included in the \$2,000 cumulative balance and analyzed as part of the borrower's ability to pay all collection accounts, unless excluded by state law.
- Documentation: The mortgagee must provide the following documentation:
 - ◆ Evidence of payment in full, if paid prior to settlement; or
 - ◆ The payoff statement, if paid at settlement; or
 - ◆ The payment arrangement with creditor, if not paid prior to or at settlement.

If the mortgagee uses 5% of the outstanding balance, no documentation is required.

- Medical collections are excluded and are not considered debt

Credit

****FSB reserves the right to require ANY collection to be paid that might have a future effect on our first lien position or the borrower's ability to repay the loan. This includes collections that are outside of this 12-month period identified in our guidelines.**

All open collections must be listed in the Liability section of the 1003.

Collection Accounts – Non Medical

The Underwriter must review all collection accounts and determine if the applicant(s) is an acceptable credit risk, regardless of GUS recommendations. USDA does not require medical collections to be paid.

If the cumulative total of all non-medical collections exceeds \$2,000, the following options will apply:

- 1) Require payment in full of these accounts prior to loan closing
- 2) Use an existing repayment agreement or require payment arrangements be made with documentation from the creditor and include the monthly payment; or
- 3) Include 5% of the outstanding balance as the monthly liability amount, no further documentation will be required

GUS Data Entry for Collections

- Collections that will be paid by loan closing should select “Pay by Close” checkbox.
- If the collection is not required to be paid in full, the lender should select Omit checkbox. The “Notes” section must be completed to state why the debt will be omitted from ratio consideration
- If a repayment agreement has a specified monthly payment, include that amount. Do not enter “\$1.00” in the monthly payment field unless this is a documented repayment amount.



VA Matrix

revised 5/3/2022

Derogatory Accounts

FSB will review the file as a whole to determine if outstanding collection and charge off accounts will require payment or may remain open. Regardless of debt determination, the credit history that derogatory accounts present must still be included in the analysis of the file. The underwriter has the final determination, and the file must contain:

- 1) LOX for all derogatory credit showing on report to help the underwriter determine if a pattern exists or if circumstances were out of the borrower's control
- 2) Supporting documentation for the LOX provided, if noted within the letter. The explanation and supporting documentation must be consistent with other credit information in the file.

Underwriting will review the information to determine if the collection accounts and charge offs were a result of 1) the borrower's disregard for financial obligations; 2) the borrower's inability to manage debt; or 3) extenuating circumstances.