FHA LOANS: CREDIT GUIDELINES

HUD requires a borrower to demonstrate a good to excellent repayment history of all debs. This history serves as the most useful guide in determining a borrower's willingness to repay credit obligations and serves as a model in predicating his/hers future actions.

A borrower who has made payments on previous or current credit obligations (such as credit cards, student loans, etc.) in a timely manner represent a reduced risk to HUD. Conversely, if the credit history, despite sufficient income to supports these debts, continuously reflects slow or often late payments, judgments and delinquent credit accounts, strong offsetting factors will be necessary to approve the loan.

When analyzing a borrower's credit report, it is important to focus upon the general pattern of credit behavior rather than isolated occurrences of late payments. Often times, people will experience a period of financial difficulty in the past and does not necessarily translate into unacceptable risk. Reasonable explanations of the credit derogatory and evidence for offsetting factors (such as a new job or promotion with greater stability and pay, for example) will be necessary. All derogatory credit information must be explained, in writing, by the borrower.

The following is a brief synopsis of the credit underwriting guidelines for FHA home loans:

Lack of Credit History:

If a borrower does not have a minimum of 2 trade lines on their credit report, alternative forms of credit may be used. This would include items such as auto insurance payment history, utility bill, etc.

Included credit obligation:

An installment loan (i.e. student loans, car loans, etc.) with less than 10 months remaining does not need to be included when qualifying for a FHA home loan. However, consideration is given to a large debt of over $100 a month, regardless of the number of months remaining. Furthermore, payments o auto leases with less than 10 months must be included in the qualifying ratios. The minimum payment on all revolving accounts (i.e. credit cards) is also factored in. If the borrower has an open revolving account without a balance, $10 per open account should be included when qualifying. Any loan where the borrower has co-signed for another party is included with their debts unless the borrower can rove that the other party has made the payments on their own for a minimum of 12 months.

Chapter 7 bankruptcy

FHA requires a minimum of 2 years since the discharge of the bankruptcy. An explanation of the bankruptcy will be required. Furthermore, the borrower should have re-established credit (i.e. secured credit cards) with no late payments.

Chapter 13 Bankruptcy:

FHA will consider a borrower still paying on a Chapter 13 bankruptcy if the payments to the court have been made for a minimum of 1 year in a satisfactory manner (as verified with the courts) and with the approval of the court trustee.

Federal Debts

A borrower is not eligible for a FHA loan if he/she is delinquent or in default on any federal debt (such as a HUD or VA mortgage, student loans, SBA loans or a tax lien against his/her property). Borrowers can become eligible by bringing any delinquent accounts current, making satisfactory repayment arrangements with the creditor (generally a 3 moth history will be required), or paying the account in full.

Judgments:

Judgments must be paid in full prior to closing.

Collection Accounts:

If a collection account is minor in nature ($100 or less), it generally does not have to be paid off as a condition of loan approval. This may vary from region to region.

Foreclosure:

A borrower who has had a property foreclosed upon, or who has given a deed-in-lieu of foreclosure within the previous 3 years, is generally not liable for a FHA home loan. However, if tit was the result of extenuating circumstance beyond the borrower's control (such as death of a spouse, loss of employment, or serious long-term illness, etc.) and the borrower has since re-established good credit, an exception may be granted, However, extenuating circumstances do not include the inability to sell a house when transferring from one area to another.

Non-purchasing spouse:

If a married borrower is purchasing a property by himself/herself, the credit obligation of the spouse must be included with the application and will be factored in with the borrower's credit obligations and used to determine the financial capacity of the borrower. Further more, the non-purchasing spouse may be required to sign a security instrument or documentation relinquishing all rights to the property.