

***Announcement 09-12***

***May 4, 2009***

***Amends these Guides: Selling***

***Updates to Credit Score Requirements and Nontraditional Credit Report Requirements***

This Announcement outlines several updates or clarifications to the following requirements:

- Determining the representative credit score and applicable pricing when one borrower has traditional credit and a credit score and one or more borrowers have nontraditional credit
- Other clarifications for determining the representative credit score
- Required delivery of credit scores
- Eligible exceptions to minimum credit score requirements for MyCommunityMortgage<sup>®</sup> loans
- Updates to nontraditional credit requirements

**Determining the Representative Credit Score and Pricing When One Borrower has Traditional Credit and Other Borrower(s) has Nontraditional Credit**

***Selling Guide, B3-5.1-03, Representative Credit Score for a Mortgage***

Credit scores are required for most mortgage loans purchased or securitized by Fannie Mae. The minimum credit score requirements are published in the [Eligibility Matrix](#) on [eFannieMae.com](#), and are based on the representative credit score for the transaction, i.e., the lesser of two scores or the middle of three scores for each borrower and then the lowest applicable representative score across all borrowers. Transactions where all borrowers lack credit scores and are relying on nontraditional credit to qualify are exempt from the minimum credit score requirements. In addition, specific pricing exists for certain LTV ratio and credit score combinations. Pricing is determined based on the representative credit score for the transaction.

Fannie Mae is clarifying the method for determining the representative credit score for both pricing and eligibility purposes in situations where one borrower has traditional credit and a credit score, and other borrowers do not have credit scores and are relying on nontraditional credit to qualify. The following applies:

- **Pricing:** The representative credit score for the transaction will be the same as when no borrowers have traditional credit and will be charged under the lowest credit score range

available in the applicable loan-level price adjustment table. Refer to the [Loan-Level Price Adjustment \(LLPA\) Matrix and Adverse Market Delivery Charge Information](#), which is available on [eFannieMae.com](http://eFannieMae.com), for additional details.

- **Eligibility:** The representative credit score for the borrower with traditional credit is the representative credit score for the transaction. This score may not be lower than the minimum required for the transaction requested, and must comply with the 580 minimum credit score requirement (unless the transaction otherwise meets the requirements outlined in the section below - Eligible Exceptions to Minimum Credit Score Requirements for MyCommunityMortgage Loans).

Fannie Mae encourages lenders to underwrite loans with Desktop Underwriter® (DU®) if one of the borrowers has nontraditional credit and all of the following conditions are met as required by DU:

- The property is a one-unit, principal residence, and all borrowers will occupy the property.
- The transaction is a purchase or limited cash-out refinance.
- The loan does not have an interest-only feature.
- The income used to qualify the borrowers does not come from self-employment.
- The borrower with traditional credit and a credit score is contributing more than 50 percent of the qualifying income.

If the transaction does not meet the above requirements, DU will issue an Out of Scope recommendation. The loan may be manually underwritten by establishing a nontraditional credit profile for the borrower without a credit score in accordance with standard *Selling Guide* requirements.

## **Other Clarifications for Determining Representative Credit Score**

### ***Selling Guide*, B3-5.1-03, Representative Credit Score for a Mortgage; and B3-5.2-01, Requirements for Credit Reports**

Fannie Mae is providing the following clarifications for determining the representative credit score for the following scenarios:

- **Two of Three Credit Scores are the Same:** In situations where the lender obtains three credit scores for a borrower and two of the scores are the same, the representative credit score for the transaction is the middle of the three scores. For example, if the borrower has credit scores of 700, 680 and 680, the representative credit score for that borrower is 680. If the borrower has credit scores of 700, 700, and 680, the representative score is 700.
- **Foreign Credit Reports and Credit Scores:** Fannie Mae currently permits the lender to use a credit report from a foreign country to document a borrower's credit history in accordance with the *Selling Guide*. If a credit score is provided with the foreign credit report it cannot be used to establish eligibility unless the credit score is the classic FICO®, as required by the *Selling Guide* (B3-5.1-01, General Requirements for Credit Scores). In addition, the lender

must not deliver the foreign credit score to Fannie Mae and it cannot be relied upon to establish eligibility. The Borrower’s and/or Co-Borrower’s Credit Score delivery fields must be left blank and the Borrower’s and/or Co-Borrower’s Credit Score ID fields must be populated with “99” indicating “Not Available.”

## Required Delivery of Credit Scores

The lender must provide key information about all of the mortgages or participation interests in mortgages that it delivers to Fannie Mae for purchase or securitization. The [Fannie Mae 2000-Character Loan Delivery File Format](#) and related [Field Definitions](#) describe all of the delivery fields and are posted on [eFannieMae.com](#). With this Announcement, Fannie Mae is making clear the requirements for the mandatory delivery of certain fields as outlined in the table below. These requirements apply to all loans delivered to Fannie Mae, including government loans, Refi Plus™, and DU Refi Plus™ loans.

Field Name and Definition	Requirements
<p><b>Number of Borrowers</b> – a two-digit numeric value indicating the number of individuals who submitted an application and signed the mortgage note.</p>	<p>Valid values are: 1 – 99.</p>
<p><b>Borrower’s and Co-Borrower’s Credit Score ID</b> – a two-digit alphanumeric value that identifies the source of the representative credit score the lender obtained for the borrower or co-borrower.</p>	<p>Valid values are: 01=Equifax, 02= TransUnion, 03=Experian, 99=Credit Score Not Available.</p> <p>If the borrower or co-borrower does not have a credit score and is relying on nontraditional credit, the lender must report code 99.</p> <p>In addition, in instances where the credit score is invalid due to inaccuracies in the repositories records (e.g., erroneous credit data), or the credit score obtained is not from an eligible source (i.e., foreign credit scores), the lender must report code 99.</p> <p>If there is not a co-borrower, the co-borrower credit score ID should be left blank.</p>
<p><b>Borrower’s and Co-Borrower’s Credit Score</b> – a four-digit numeric value indicating the representative credit score assigned to the borrower and co-borrower.</p>	<p>If the lender obtains more than one credit score for the borrower, it should report the lower score (if two were obtained) or the middle score (if three were obtained).</p> <p>This field must be left blank if no score was obtained based on the borrower’s lack of a traditional credit history; in instances where the credit score is invalid due to inaccuracies</p>

Field Name and Definition	Requirements
	<p>in the repositories records (e.g., erroneous credit data); or the credit score obtained is not from an eligible source (i.e., foreign credit scores).</p> <p>If there is no co-borrower, the co-borrower credit score must be left blank.</p>

**Note regarding selection of the borrower and co-borrower:** The Field Definitions document defines the "Borrower" as the primary borrower who signed the mortgage note. The "Co-Borrower" is the first co-borrower who signed the mortgage note. When there are more than two borrowers, Fannie Mae encourages lenders to designate the borrowers with the highest and lowest representative credit scores as the "Borrower" and "Co-Borrower." All other delivery fields that are specific to the borrower and co-borrower (e.g., name, Social Security number, age, credit score) must be from the same two borrowers designated as the borrower and co-borrower.

## Eligible Exceptions to Minimum Credit Score Requirements for MyCommunityMortgage Loans

### *Selling Guide, B5-5-03, MyCommunityMortgage Underwriting Methods and Requirements*

The *Selling Guide* states that when the lender obtains a representative credit score, but the score is less than the minimum required for MyCommunityMortgage (MCM), the lender may use one of three options to determine eligibility. Fannie Mae is clarifying the applicability and availability of each option for MCM as follows:

- For borrowers with insufficient traditional credit histories (as documented by reason codes on the credit report that indicate a lack of credit accounts, accounts not open long enough, lack of usage, etc., as reasons for the low credit score), the lender may supplement the traditional credit file (referred to as "thin files") with the development of an acceptable nontraditional credit profile. This policy applies without regard to the borrower's actual score (even if the score is below 580).

Effective with this Announcement, lenders must begin delivering Special Feature Code 818 to identify MCM loans that have borrowers with thin files in addition to delivering the credit score(s) for the borrower(s). This requirement applies only to manually underwritten loans. Special feature code 818 should not be used for any other purpose outside of thin file MCM loans.

- If a borrower has a sufficient amount of credit to obtain a credit score, but the representative credit score is less than the minimum required, the lender may no longer establish an acceptable "traditional credit profile" as currently outlined in the *Selling Guide* in the above-referenced topic.

- If the borrower’s credit history was heavily influenced by credit deficiencies that were the result of documented extenuating circumstances, Fannie Mae is clarifying that the minimum credit score for the transaction must be met, or the credit score must be no less than the greater of 580 or 40 points below the minimum required threshold as outlined in the [Eligibility Matrix](#). Special Feature Code 818 is not applicable for these loans and should not be used.

## **Updates to Nontraditional Credit Requirements**

In order to provide homeownership opportunities to borrowers who have credit that does not appear on a traditional credit report, Fannie Mae has guidelines that permit the lender to consider nontraditional sources of credit to establish an acceptable credit history. Currently, borrowers who have nontraditional credit histories are eligible for the same products that are available for borrowers with traditional credit histories. Fannie Mae remains committed to serving the needs of nontraditional credit borrowers in obtaining mortgage financing; however, certain changes to our existing eligibility requirements are necessary in light of current market conditions and to align with other recently announced changes.

### **One Source of Nontraditional Credit Must be Housing Related**

***Selling Guide, B3-5.4-02, Types of Credit (Tiers I, II, and III); B5-5-03, MyCommunityMortgage Underwriting Methods and Requirements***

Per Fannie Mae’s standard requirements in developing a nontraditional credit report, a minimum of four to six sources of credit must be obtained depending on the types of nontraditional credit sources the borrower has. Fannie Mae is clarifying that at least one source of nontraditional credit must be housing related, i.e., rental housing payments. Fannie Mae is aligning standard nontraditional credit report policy with MCM requirements by requiring that at least one source of nontraditional credit be housing related *in all instances*. Fannie Mae will continue to permit flexibility for MCM loans, however, by requiring a minimum of three rather than four sources of nontraditional credit.

### **Comprehensive Risk Assessment for Borrowers with Nontraditional Credit**

***Selling Guide, B3-1-01, Comprehensive Risk Assessment; B3-5.1-01, General Requirements for Credit Scores; B3-5.1-02, Credit Score Approximation***

The *Selling Guide* states that for borrowers with nontraditional credit and no credit score, the lender is directed to approximate a credit score in the “lower 600 range” if the borrower meets the credit profile outlined in the *Guide*. Fannie Mae is eliminating this policy that requires the lender to approximate a nontraditional credit score. If the credit history for all borrowers consists only of nontraditional credit sources then the credit history must be defined as “high primary risk” in the lender’s comprehensive risk assessment of the mortgage loan.

## **Effective Dates**

The changes in this Announcement are effective for all whole loans purchased or MBS pools with issue dates on or after August 1, 2009.

\*\*\*\*\*

Lenders who have questions about Announcement 09-12 should contact their Customer Account Team for additional information.

Michael A. Quinn  
Senior Vice President  
Single-Family Risk Officer