Topic 7: Credit History – Required Documentation and Analysis

Change Date: July 27, 2023

- Subsection b has been updated to include guidance regarding medical collections and medical charge offs.
- Subsection b has been updated to provide clarity regarding the monthly payment consideration for unpaid medical collection accounts.

a. Credit Report Standards

Credit Reports used in analyzing VA loans must be either Three-file Merged Credit Reports (MCR), or Residential Mortgage Credit Reports (RMCR).

The credit report must be less than 120-days old (180 days for new construction). For automatically closed loans and prior approval loans, the date of the credit report must be within 120 days of the date the note is signed (180 days for new construction).

If an RMCR is used, the standards applicable to a RMCR include, but are not limited to, the following:

- The report must be prepared by a reputable credit reporting agency.
- Each account with a balance must have been checked with the creditor within 90 days of the date of the credit report.

For each debt listed, the report must provide the creditor's name, date the account was opened, high credit, current status, required payment, unpaid balance, and payment history.

The report must name at least two national repositories of credit records contacted for each location in which the borrower has resided during the most recent 2 years (separate repository inquiries are required for any co-borrowers with individual credit records).

The report must include all available public records information that is not considered obsolete under the Fair Credit Reporting Act (15 U.S.C. § 1681) such as bankruptcies, judgments, law suits, foreclosures and tax liens.

The RMCR must be an original or electronic report, with no erasures, whiteouts, or alterations.

The report must contain a 24-month employment and residency history.

VA may decline to accept a credit report which does not meet these standards.

If possible, the cost of the credit report must be listed on the credit report. If not possible, an itemized invoice identifying the borrower(s) is required to verify the cost on the Closing Disclosure Statement (CD) when charging the borrower for the credit report.

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b. How to Analyze Credit

The borrower's past repayment practices on obligations is the best indicator of his or her willingness to repay future obligations. Emphasis should be on the borrower's overall payment patterns rather than isolated occurrences of unsatisfactory repayment. Determine whether the borrower (and spouse, if applicable) is a satisfactory credit risk based on a careful analysis of the credit report and other credit data.

VA does not have a minimum credit score requirement.

Rent and Mortgage Payment History

The borrower's most recent 24-month rental history and any outstanding, assumed, or recently retired mortgages must be verified and rated. Housing expense payment history is often a primary indicator of how motivated the borrower is to make timely mortgage payments in the future.

Absence of Credit History

For borrower(s) with no established credit history, base the determination on the borrower's payment record on alternative or nontraditional credit directly from the borrower or creditor in which a payment history can be verified.

Absence of a credit history is not generally considered an adverse factor.

It may result when:

- borrower(s) has not yet developed a credit history,
- borrower(s) has routinely used cash rather than credit, and/or
- borrower(s) has not used since some disruptive credit event such as bankruptcy or debt pro-ration through consumer credit counseling.

Accounts in the Spouse's Name

See Topic 2, subsection c in this chapter for ECOA and consideration of the spouse's credit history.

Adverse Credit Data

In circumstances not involving bankruptcy, satisfactory credit is generally considered to be re-established after the borrower(s), have made satisfactory payments for 12 months after the date the last derogatory credit item was satisfied. If a credit report reveals numerous unpaid collections and/or accounts that are not being paid timely, including some which have been outstanding for many years, then once the borrower has satisfied the obligations, and then makes timely payments on subsequent obligations for at least 12 months, satisfactory credit is considered re-established.

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Topic 7: Credit History – Required Documentation and Analysis, continued

b. How to Analyze Credit, continued

Medical Collection and Charge-off Accounts

Identifiable medical collections are collection accounts that are established when an overdue medical bill is referred to a collection agency. Charge-offs may occur when a creditor is no longer pursuing repayment of the medical debt. Lenders may disregard all identifiable medical collections, including charge-off accounts, that have not been reduced to a judgment or lien.

Identifiable medical collection accounts that have not been reduced to a judgment or lien do not have to be paid off as a condition for loan approval and should not impact the overall acceptability of a borrower's credit.

Lenders do not need to obtain explanations for medical collections or charge-offs and do not need to otherwise address such accounts.

Non-medical Collection Accounts

Isolated non-medical collection accounts do not necessarily have to be paid off as a condition for loan approval. A credit report may show numerous satisfactory accounts and one or two unpaid collections. In such instances, while it would be preferable to have collections paid, it would not necessarily be a requirement for loan approval.

However, non-medical collection accounts must be considered part of the borrower's overall credit history and such accounts should be considered open, recent credit. These unpaid accounts must therefore be considered in the debt-to- income ratio and residual income calculation on VA Form 26-6393, Loan Analysis, and when using an Automated Underwriting System (AUS). If such accounts are listed on the credit report with a minimum payment, then the debt should be recognized at the minimum payment amount.

Non-medical collection accounts without established payment arrangements are to be included with a calculated monthly payment using 5% of the outstanding balance of the collection. Borrowers with a history of such accounts should have re-established satisfactory credit in order to be considered a satisfactory credit risk.

While VA does not require such accounts be paid-off prior to closing if the borrower's overall credit is acceptable, an underwriter must address the existence of the account(s) with an explanation on VA Form 26- 6393, Loan Analysis, and justify why positive factors outweigh the negative credit history such accounts represent.

Charge -off Accounts

These accounts are typically collections in which the creditor is no longer pursuing collection of the account. The underwriter must address the circumstances regarding the negative credit history when reviewing the overall credit of the borrower(s). This does not apply to identifiable medical charge-offs, as described above.

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