



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-8000

ASSISTANT SECRETARY FOR HOUSING-
FEDERAL HOUSING COMMISSIONER

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Mortgagee Letter 2022-17

To: All FHA-Approved Mortgagees
All Direct Endorsement Underwriters
All Eligible Submission Sources for Condominium Project Approvals
All FHA Roster Appraisers
All FHA-Approved 203(k) Consultants
All FHA-Approved Title I Lenders
All HUD-Approved Housing Counselors
All HUD-Approved Nonprofit Organizations
All Governmental Entity Participants
All Real Estate Brokers
All Closing Agents

Subject Consideration of Positive Rental Payment History for First Time Homebuyers in Forward Mortgage Purchase Transactions

Purpose This Mortgagee Letter (ML) provides guidance to lenders regarding the introduction of positive rental history for First Time Homebuyers on forward purchase transactions in FHA's Technology Open To Approved Lenders (TOTAL) Mortgage Scorecard.

Effective Date This guidance may be implemented for TOTAL scoring events on or after October 30, 2022, for case numbers assigned on or after September 20, 2021.

All updates will be incorporated into a forthcoming update of the HUD Handbook 4000.1, *FHA Single Family Housing Policy Handbook* (Handbook 4000.1).

Public Feedback HUD welcomes feedback from interested parties for a period of 30 calendar days from the date of issuance. To provide feedback on this policy document, please send feedback to the FHA Resource Center at answers@hud.gov. HUD will consider the feedback in determining the need for future updates.

Affected Programs

The provisions of this ML apply to Single Family Title II forward purchase programs evaluated in the TOTAL Mortgage Scorecard system.

Background

Handbook 4000.1 requires that all transactions be scored through the Technology Open to Approved Lenders (TOTAL) Mortgage Scorecard, with the exception of Streamline Refinance transactions and mortgage assumptions. Each Automated Underwriting System (AUS) using the TOTAL Mortgage Scorecard provides a Feedback Certificate/Finding Report, which documents results of the credit risk evaluation, identifies the credit report utilized for the scoring event, and provides case file documentation waivers, including relief from documenting prior rental history when an Accept risk classification is obtained.

Currently, rental verification is not a feature of most Tri-Merged Credit Reports or Residential Mortgage Credit Reports provided for FHA-insured products that require credit data. When provided, the rental verification generally exists as separate documentation. TOTAL Mortgage Scorecard does not currently evaluate credit data other than that found in the credit report associated with the application. Several studies have indicated that positive rental history may represent lower credit risk and could yield an improvement in credit scores if such information were included in credit reporting data. To recognize such potentially positive credit attributes, FHA is updating its TOTAL Mortgage Scorecard to allow for the utilization of positive rental payment history for the credit risk assessment when delivering credit decisions through TOTAL Mortgage Scorecard. Using rental payment history promotes a more complete credit evaluation while appropriately managing risk to the FHA Mutual Mortgage Insurance Fund.

Summary of Changes

This ML updates guidance in Handbook 4000.1 section II.A.4.b.iii – Evaluating Credit History (TOTAL) by adding a new section: II.A.4.b.iii (L) – Positive Rental History, when at least one Borrower is identified as a first-time homebuyer and at least one Borrower has a documented positive rental history.

(L) Positive Rental Payment History (TOTAL) (II.A.4.b.iii (L))

(1) Definitions

Positive Rental Payment History refers to the on time payment by a borrower of all rental payments in the previous 12 months. A rental payment is considered to be on time when it is paid within the month due.

A First Time Homebuyer refers to an individual who has not held an ownership interest in another property in the three years prior to the case number assignment. First Time Homebuyer includes an individual who is divorced or legally separated and who has had no ownership interest in a principal residence (other than joint ownership interest with a spouse) during the three years prior to case number assignment.

(2) Standard

A Mortgagee may submit the transaction to TOTAL Mortgage Scorecard indicating a Positive Rental Payment History provided:

- the transaction is a purchase;
- at least one Borrower is identified as a First Time Homebuyer;
- the Minimum Decision Credit Score (MDCS) is 620 or greater; and
- at least one Borrower has a documented history of a positive rental payment history with monthly payments of \$300 or more for the previous 12 months.

(3) Required Documentation

To verify the Borrower's rental payment history, the Mortgagee must obtain a copy of the executed rental or lease agreement and one of the following:

- written verification of rent from a landlord with no Identity of Interest with the Borrower; or
- 12 months canceled rent checks; or
- 12 months bank or payment service statements documenting rents paid; or
- landlord reference from a rental management company.

Borrowers renting from a Family Member must provide a copy of the executed rental or lease agreement and 12 months canceled checks or bank statements to demonstrate the satisfactory rental payment history.

FHA Systems

FHA Connection and the TOTAL Mortgage Scorecard have been updated with an indicator that the Mortgagee may use when a positive rental payment history has been documented and submitted for one of the Borrowers

**Paperwork
Reduction Act**

The information collection requirements contained in this document have been approved by the Office of Management and Budget (OMB) under the Paperwork Reduction Act (PRA) of 1995 (44 U.S.C. 3501-3520) and assigned OMB control numbers 2502-0005; 2502-0059; 2502-0117; 2502-0189; 2502-0302; 2502-0306; 2502-0322; 2502-0358; 2502-0404; 2502-0414; 2502-0429; 2502-0494; 2502-0496; 2502-0525; 2502-0527; 2502-0538; 2502-0540; 2502-0556; 2502-0561; 2502-0566; 2502-0570; 2502-0583; 2502-0584; 2502-0589; 2502-0595; 2502-0600; and 2502-0610. In accordance with the PRA, HUD may not conduct or sponsor, and a person is not required to respond to, a collection of information unless the collection displays a currently valid OMB control number.

Questions

Any questions regarding this ML may be directed to the FHA Resource Center at 1-800-CALL-FHA. Persons with hearing or speech impairments may reach this number by calling the Federal Relay Service at 1-800-877-8339. For additional information on this ML, please visit www.hud.gov/answers.

Signature

Julia R. Gordon
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