



ASSISTANT SECRETARY FOR HOUSING-
FEDERAL HOUSING COMMISSIONER

Date: August 15, 2013
To: All FHA-Approved Mortgagees
Mortgagee Letter 2013-25

Subject Collections and Disputed Accounts – TOTAL Mortgage Scorecard User Guide

Purpose The purpose of this Mortgagee Letter (ML) is to update Chapter 1, Loan Submission Requirements, and Chapter 2, Underwriting Requirements, in FHA’s TOTAL Mortgage Scorecard User Guide.

Effective Date This guidance is effective for all case numbers assigned on or after October 15, 2013.

Affected Programs This guidance applies to all FHA programs with the exception of non-credit qualifying streamline refinances and the Home Equity Conversion Mortgage.

Affected Topics This ML affects topics found in Mortgagee Letter 2005-15, TOTAL Mortgage Scorecard Update, relating to Tolerance Level and Documentation Relief, and the FHA TOTAL Mortgage Scorecard User Guide Chapter 1 relating to Liabilities, and Chapter 2 relating to Collections and Disputed Accounts. HUD will integrate these changes into the relevant FHA Single Family On-Line Handbooks and TOTAL Scorecard Guide.

FHA TOTAL Mortgage Scorecard User Guide
Chapter 1, Liabilities
Chapter 2, Collection Accounts
Chapter 2, Disputed Accounts

Mortgage Letter 2013-25, Continued

**FHA TOTAL
Mortgage
Scorecard
User Guide,
Chapter 1,
*Liabilities***

Section VI is amended to include *collection account payments and judgment payments*, if applicable, as liabilities the lender is responsible for including in the Automated Underwriting System for TOTAL's risk evaluation.

**FHA TOTAL
Mortgage
Scorecard
User Guide,
Chapter 2,
*Collection
Accounts***

FHA does not require collection accounts to be paid off as a condition of mortgage approval. However, FHA does recognize that collection efforts by the creditor for unpaid collections could affect the borrower's ability to repay the mortgage. To mitigate that risk, FHA is requiring the lender to follow the guidelines on collection accounts with an aggregate balance equal to or greater than \$2,000, as described below.

If	And	Then
the Automated Underwriting System using the TOTAL Mortgage Scorecard rates the mortgage as an Accept,	the cumulative outstanding balance of all collections of all borrowers is less than \$2,000	the lender is not required to consider or evaluate collection accounts.
	the cumulative outstanding balance of all collections of all borrowers is equal to or greater than \$2,000	the lender must include monthly payments in the borrower's debt-to-income ratio as stated in HUD 4155.1 4.C.2.e for accounts that will remain open subsequent to closing.

Collection accounts of a non-purchasing spouse in a community property state *are included* in the cumulative balance. A lender must analyze the impact of the borrower's ability to pay all collection accounts, including those of the non-purchasing spouse (with the exception of obligations excluded by state law) in accordance with the guidance stated in HUD 4155.1 4.A.5.b and 4.C.2.e.

Mortgage Letter 2013-25, Continued

**FHA TOTAL
Mortgage
Scorecard
User Guide,
Chapter 2,
Collection
Accounts,
Continued**

NOTE: Medical collections and charge offs are excluded from this guidance.

Reference: See HUD Handbook 4155.1 4.C.2.e, for information regarding verification, or calculation of monthly payment for collections.

**FHA TOTAL
Mortgage
Scorecard
User Guide,
Chapter 2,
Disputed
Accounts**

FHA TOTAL Mortgage Scorecard utilizes information from a borrower's credit report to determine the borrower's overall credit risk. Because disputed credit accounts are generally not considered in the borrower's credit report, FHA requires loans of borrowers with derogatory disputed accounts of \$1,000 or more (excluding medical) to be manually underwritten.

With this ML, FHA is revising policy on manual downgrades to reflect the risk associated with derogatory disputed accounts for factors such as age and size of outstanding balance.

If	And	Then
the Automated Underwriting System using the TOTAL Mortgage Scorecard rates the mortgage loan application as an Accept,	the total outstanding balance of all disputed derogatory credit accounts (excluding medical) is less than \$1,000	<u>downgrade</u> to a manual underwrite is <u>not required.</u>
	disputed derogatory credit accounts (excluding medical) have an aggregate balance equal to or in excess of \$1,000	<u>downgrade</u> to a manual underwrite.

Mortgage Letter 2013-25, Continued

**FHA TOTAL
Mortgage
Scorecard
User Guide,
Chapter 2,
Disputed
Accounts,
Continued**

Disputed derogatory credit accounts of a non-purchasing spouse in a community property state are ***not included*** in the cumulative balance for purposes of determining if the mortgage application is downgraded to a “Refer.”

Disputed medical accounts are excluded from the \$1,000 limit and do not require documentation. Disputed derogatory credit accounts resulting from identity theft, credit card theft, or unauthorized use, etc., ***are also excluded*** from the \$1,000 limit. However, the lender must provide a credit report, letter from the creditor, or other appropriate documentation to support the dispute, such as a police report disputing the fraudulent charges in the case binder.

Disputed derogatory credit accounts are defined as:

- disputed charge off accounts,
- disputed collection accounts, and
- disputed accounts with late payments in the last 24 months.

**Paperwork
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The information collection requirements contained in this document are pending approval by the Office of Management and Budget (OMB) under the Paperwork Reduction Act of 1995 (44 U.S.C. 3501-3520) and assigned OMB control number 2502-0059. In accordance with the Paperwork Reduction Act, 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

For additional information on this ML, please visit www.hud.gov/answers or call the FHA Resource Center at 1-800-CALLFHA (1-800-225-5342). Persons with hearing or speech impairments may reach this number via TTY by calling the Federal Information Relay Service at 1-800-877-8339.

Signature

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