

Ralph M. Perrey, Executive Director



MEMORANDUM

DATE: November 22, 2019

TO: All Originating Agents

FROM: Rhonda Ronnow, Director of Single Family Loan Operations

SUBJECT: **Establishing/reestablishing credit; slim credit files**

As the state housing agency, THDA aspires to meaningfully expand safe, sound, affordable housing opportunities for low and moderate income Tennesseans. Programmatically, our aspirations include expanding homeownership opportunities statewide and supporting successful, ongoing homeownership. To meet these aspirations, THDA reserves the right to credit underwrite any loan that may have unacceptable credit or a slim credit file.

To add clarification to sections 5.1C and 5.4B of the Originating Agent's Guide, THDA added the definition of establishing and/or reestablishing credit, located in section 5.4K. If establishing or reestablishing credit, 3 non-traditional trade lines with 12 month good payment history must be provided, the combination of traditional and non-traditional trade lines can be provided. Please reference these sections on pages 24 and 28 of the Guide.

THDA thanks you for your continued participation in the Great Choice Loan Program and our continued efforts in helping Tennesseans reach and support their goal of homeownership.

If you have any questions, please call 615-815-2100 or send an e-mail to SFask@thda.org.

SECTION 5: PROCESSING AND CREDIT UNDERWRITING REQUIREMENTS

5.1 OVERVIEW

A. Rates and Rate Lock

Current interest rates are listed on our website at www.thda.org. Rates can be locked at any time prior to submission. Loans must be locked at the time the complete loan file is submitted to THDA for approval. For mortgage loan programs described in section 1.4, existing construction rates will be locked for 90 days; new/proposed construction will be locked for 180 days. One 30 day extension may be allowed. Rate lock desk is available 9 a.m to 4:30 pm CST during THDA's business days.

B. Disclosures

1. Great Choice

Originating agents are required to provide all disclosures that comply with all federal and state laws and/or regulations. These include, without limitation, signed and dated copies of loan estimate, Tennessee Residential Property Condition Disclosure and transfer of servicing disclosures.

2. Great Choice Plus

Originating agents will provide all disclosures that comply with all federal and state laws and/or regulations. These include GFE and Disclosure of Loan Terms.

C. Underwriting Guidelines, Debt Ratios, Credit Scores, Compensating Factors

Eligible applicants must meet credit underwriting standards of the relevant insuring program, as evidenced by the approval of a Direct Endorsement underwriter and the insurer, program accepted, underwriting software, i.e. Loan Product Advisor (LPA), Desktop Underwriter (DU). LP or DU acceptance must also be signed by the Originating Agent underwriter or processor verifying the accuracy of information or data required to receive approval.

All loan submissions with a borrower(s) credit score (middle score or lowest score if only two scores) below 640 will not be eligible for THDA funding. THDA will accept loans with the following decision responses which shall meet the following THDA requirements:

1. Approve/Eligible: Maximum debt ratio of 45% and a minimum credit score of 640.
2. Refer/Eligible - due to "no score" only: Loans must be manually underwritten using non-traditional credit guidelines in accordance with FHA guidelines, maximum debt ratio of 36%.
 - Two months PITI in reserves. This cannot be a gift.
3. Refer/Eligible: Loans must be manually underwritten, maximum debt ratio of 43%, minimum credit score of 640, and must meet two of the three THDA overlays listed below.
 - The borrower must have a verified rental history. Verification of rental (VOR) is acceptable if borrower is renting from a commercial management company; or 12 months canceled checks/bank verification if borrower is renting from a private landlord.
 - One month PITI in reserves. This cannot be a gift.
 - A two year job history with a minimum of 12 months at current employer.
4. Approve/Ineligible: As it refers to the HUD REO \$100.00 down payment program only, maximum debt ratio of 45% and minimum credit score of 640.

All THDA loan application packages will be required to include a copy of the completed FHA Loan Underwriting and Transmittal Summary or Loan Analysis signed by an authorized program endorsed underwriter of the Originating Agent, or correspondent underwriting agent. (See Section 6.2. K)

Any closed loan subsequently determined to be ineligible for program insurance due to non-compliance with that program's credit underwriting guidelines will be ineligible for THDA funding and subject to repurchase without exception.

D. Homebuyer Education

5.4 DEBTS, OBLIGATIONS AND OTHER EXPENSES

A. Remaining Debt Payments

Although most program insurer underwriting guidelines allow a certain number of remaining scheduled debt payments to be disregarded for purposes of loan qualifying, the impact of existing debt payments on Applicant's budget at the time of the first scheduled THDA loan payment may be evaluated in THDA's sole discretion.

B. Bankruptcy (Chapter 7 and Chapter 13)

An Applicant's Chapter 7 bankruptcy must be discharged for a minimum of two years and acceptable credit must be re-established to be eligible for a THDA loan.

An Applicant's Chapter 13 bankruptcy must be discharged for a minimum of one year, with all payments on the plan made as agreed, and acceptable credit re-established or maintained during this time.

Applicants currently in bankruptcy are not eligible for THDA loan programs.

THDA considers re-established credit, tradelines either traditional or non-traditional that have been active for 12 consecutive months.

C. Previous Default

Applicants with prior foreclosures or deeds-in-lieu are not eligible for THDA loan programs for a period of three years from the date of the foreclosure sale. If the foreclosure or a short sale was on a THDA funded loan, the borrowers are not eligible for another THDA loan.

D. Child Support and Alimony Obligations

Include a copy of the final order, signed by the court. Payments must be current.

E. Judgments

Any and all judgments must be handled in accordance with the program insurer guidelines.

F. Federal or State Tax Liens, Tax Arrearages

All tax liens or arrearages must be paid in full. Include an acceptable explanation from the Applicant.

G. Collections

Any and all collection accounts must be handled in accordance with program insurer guidelines.

H. Co-Signed Debt

Any and all co-signed accounts must be included in Originating Agent underwriting decisions in accordance with program insurer guidelines.

I. Child Care Expense

Child care expenses must be handled in accordance with program insurer guidelines.

J. Legally Enforceable Obligation Letter

If a borrower receives a Great Choice Plus loan and has an FHA first mortgage, a Legally Enforceable Obligation Letter, Form HO-0476, must be signed by Borrower at closing. This letter will be sent to the Originating Agent with the THDA loan commitment.

K. Establishing / Re-establishing Credit

Borrower(s) must show credit worthiness to obtain financing with THDA. If establishing or re-establishing credit, 3 non-traditional trade lines with 12 month good payment history must be provided, the combination of traditional and non-traditional trade lines can be provided. Additional information may be required at the discretion of THDA.