

## 7. Credit History

---

### Change Date

April 10, 2009, Change 10

- This section has been updated to make minor grammatical edits.
- 

### 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, the date of the credit report must be within 120 days of the date the note is signed (180 days for new construction).

For prior approval loans, the date of the credit report must be within 120 days of the date the application is received by VA (180 days for new construction).

#### ***If an RMCR is Used***

The standards applicable to an 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; such as bankruptcies, judgments, law suits, foreclosures and tax liens.
- The RMCR must be an original report, with no erasures, whiteouts, or alterations.
- The report must contain a 24-month employment and residency history.

---

*Continued on next page*

## 7. Credit History, Continued

---

### **a. Credit Report Standards** (continued)

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

VA will notify the lender and the credit reporting agency of how quality standards are not being met. If the problem continues, VA will inform all participating lenders that credit reports from the particular credit reporting agency are unacceptable.

All inquiries made within the last 90 days must be included on the report.

---

### **b. Verification and Rating of Debts and Obligations**

See section 5 of this chapter for requirements of verification.

---

### **c. How to Analyze Credit**

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

#### ***Rent and Mortgage Payment History***

The applicant's rental history and any outstanding, assumed, or recently retired mortgages must be verified and rated.

Housing expense payment history is often the best indicator of how motivated the applicant is to make timely mortgage payments in the future.

#### ***Absence of Credit History***

For applicants with no established credit history, base the determination on the applicant's payment record on utilities, rent, automobile insurance, or other expenses that applicant has paid.

---

*Continued on next page*

## 7. Credit History, Continued

---

### c. How to Analyze Credit (continued)

Absence of a credit history is **not** generally considered an adverse factor. It may result when:

- recently discharged veterans have not yet developed a credit history,
- applicants have routinely used cash rather than credit, and/or
- applicants have not used credit since some disruptive credit event such as bankruptcy or debt pro-ration through consumer credit counseling. In these cases, develop evidence of timely payment of noninstallment obligations such as rent and utilities since the disruptive credit event.

**Reference:** For bankruptcy cases, see “Bankruptcy” in this section.

#### ***Accounts in the Spouse’s Name***

Under ECOA - Upon the applicant’s request, the lender must consider any account reported in the name of the applicant’s spouse or former spouse that the applicant can demonstrate accurately reflects the applicant’s creditworthiness.

#### ***Consideration of the Spouse’s Credit History***

ECOA prohibits requests for, or consideration of, the credit of a spouse who will not be contractually obligated on the loan except:

- if the applicant is relying on alimony, child support, or maintenance payments from the spouse (or former spouse), or
- in community property states.
  - If the property is located in a community property state, VA requires consideration of the spouse’s credit (whether or not the spouse will be personally liable on the note and whether or not the applicant and spouse choose to have the spouse’s income considered).
  - If a married veteran wants to obtain the loan in his or her name only, the veteran may do so without regard to the spouse’s credit only in a non-community property state.

---

*Continued on next page*

## 7. Credit History, Continued

---

### c. How to Analyze Credit (continued)

#### *Adverse Data*

**Reestablished Credit:** In circumstances not involving bankruptcy, satisfactory credit is generally considered to be reestablished after the veteran, or veteran and spouse, have made satisfactory payments for 12 months after the date the last derogatory credit item was satisfied. For example, assume a credit report reveals several unpaid collections, including some which have been outstanding for many years. Once the borrower has satisfied the obligations, and then makes timely payments on subsequent obligations for at least 12 months, satisfactory credit is reestablished.

**Collections:** Isolated collection accounts do not necessarily have to be paid off as a condition for loan approval. For example, a credit report may show numerous satisfactory accounts and one or two unpaid medical (or other) collections. In such instances, while it would be preferable to have collections paid, it would not necessarily be a requirement for loan approval. However, collection accounts must be considered part of the borrower's overall credit history and unpaid collection accounts should be considered open, recent credit. Borrowers with a history of collection accounts should have reestablished satisfactory credit (see previous paragraph) in order to be considered a satisfactory credit risk.

**Disputed Accounts:** Lenders may consider a veteran's claim of bona fide or legal defenses regarding unpaid debts except when the debt has been reduced to judgment. Account balances reduced to judgment by a court must either be paid in full or subject to a repayment plan with a history of timely payments. For unpaid debts or debts that have not been paid timely, pay-off of these debts after the acceptability of applicant's credit is questioned does not alter the unsatisfactory record of payment.

**Summary:** The above guidance is not meant to address every possible scenario. Lenders should carefully review the complete credit history and use their judgment. For example, if an applicant has numerous unpaid collections – no matter when they were established – it's not unreasonable to question the borrower's ability and willingness to honor obligations. If the applicant and/or spouse are determined satisfactory credit risks in spite of derogatory credit information, the loan file should include an explanation from the applicant(s) and the lender's underwriter of the basis for the determination. If lenders are unsure about a particular situation, they should contact the appropriate VA Regional Loan Center.

---

*Continued on next page*

## 7. Credit History, Continued

---

### d. Consumer Credit Counseling Plan

If a veteran, or veteran and spouse, have prior adverse credit and are participating in a Consumer Credit Counseling plan, they may be determined to be a satisfactory credit risk if they demonstrate 12 months' satisfactory payments and the counseling agency approves the new credit.

If a veteran, or veteran and spouse, have good prior credit and are participating in a Consumer Credit Counseling plan, such participation is to be considered a neutral factor, or even a positive factor, in determining creditworthiness. Do not treat this as a negative credit item if the veteran entered the Consumer Credit Counseling plan before reaching the point of having bad credit.

---

### e. Bankruptcy

The fact that a bankruptcy exists in an applicant's (or spouse's) credit history does **not** in itself disqualify the loan. Develop complete information on the facts and circumstances of the bankruptcy. Consider the reasons for the bankruptcy and the type of bankruptcy filing.

#### ***Bankruptcy Filed Under the Straight Liquidation and Discharge Provisions of the Bankruptcy Law***

You may disregard a bankruptcy discharged more than 2 years ago.

If the bankruptcy was discharged within the last 1 to 2 years, it is probably **not** possible to determine that the applicant or spouse is a satisfactory credit risk unless both of the following requirements are met:

- the applicant or spouse has obtained consumer items on credit subsequent to the bankruptcy and has satisfactorily made the payments over a continued period, and
  - the bankruptcy was caused by circumstances beyond the control of the applicant or spouse such as unemployment, prolonged strikes, medical bills not covered by insurance, and so on, and the circumstances are verified. Divorce is **not** generally viewed as beyond the control of the borrower and/or spouse.
- 

*Continued on next page*

## 7. Credit History, Continued

---

### e. Bankruptcy (continued)

If the bankruptcy was caused by failure of the business of a self-employed applicant, it may be possible to determine that the applicant is a satisfactory credit risk if

- the applicant obtained a permanent position after the business failed,
- there is no derogatory credit information prior to self-employment,
- there is no derogatory credit information subsequent to the bankruptcy, and
- failure of the business was **not** due to the applicant's misconduct.

If a borrower or spouse has been discharged in bankruptcy within the past 12 months, it will **not** generally be possible to determine that the borrower or spouse is a satisfactory credit risk.

#### *Petition Under Chapter 13 of the Bankruptcy Code*

This type of filing indicates an effort to pay creditors. Regular payments are made to a court-appointed trustee over a 2 to 3 year period or, in some cases, up to 5 years, to pay off scaled down or entire debts.

If the applicant has finished making all payments satisfactorily, the lender may conclude that the applicant has reestablished satisfactory credit.

If the applicant has satisfactorily made at least 12 months worth of the payments and the Trustee or the Bankruptcy Judge approves of the new credit, the lender may give favorable consideration.

---

### f. Foreclosures

The fact that a home loan foreclosure (or deed-in-lieu of foreclosure) exists in an applicant's (or spouse's) credit history does **not** in itself disqualify the loan.

- Develop complete information on the facts and circumstances of the foreclosure.
- Apply the guidelines provided for bankruptcies filed under the straight liquidation and discharge provisions of the bankruptcy law. See the preceding heading entitled "Bankruptcy."

If the foreclosure was on a VA loan, the applicant may not have full entitlement available for the new loan. Ensure that the applicant's Certificate of Eligibility reflects sufficient entitlement to meet any secondary marketing requirements of the lender.

---

