

Summary

Documentation Requirements for Mortgage Credit Access

Introduction

FHA is providing additional guidance for minimum underwriting standards in cases where borrowers can document that certain credit impairments were the result of an Economic Event beyond the borrower's control and recovery from the event can be evidenced.

An **Economic Event** results in:

- A 20 percent or greater reduction in a borrower's Household Income for a minimum period of six months resulting from a
 - Loss of Employment, or
 - Loss of Income, or
 - A combination of both.

Loss of Employment must be documented with:

Written Verification of Employment (VOE) evidencing termination date or,

- In cases where the prior employer is no longer in business, documented termination notice and verbal verification of employment(from former supervisor or co-worker); and
- Documented unemployment for a minimum of 6 months.

Loss of Income must be documented with (as appropriate):

- Written VOE evidencing prior income; or
- Federal tax returns or W-2's evidencing prior income and reduction in income, or
- Written VOE evidencing termination date or,
 - In cases where the prior employer is no longer in business, documented termination notice and verbal verification of employment(from former supervisor or co-worker); and
 - Documented unemployment for a minimum of six months.

Documenting credit impairments related to the Economic Event.

The lender must document analysis of delinquent accounts to determine the late payments or other credit deficiencies were the result of an Economic Event and not a disregard for financial obligations or an inability to manage debt.

The lender must review the credit report and the documentation of the Economic Event to determine major indications of derogatory credit, such as judgments, collections and other credit problems, were the result of the Economic Event.

To determine the derogatory credit was the result of the Economic Event, the lender must review the credit report to determine:

- the borrower exhibited satisfactory credit prior to the onset of the event,
- the derogatory credit occurred after the onset of the Economic Event, and
- the borrower has re-established Satisfactory Credit