

In mortgage loan underwriting, a borrower's credit history is an essential factor in determining their eligibility for a loan. However, not all borrowers have a traditional credit history. In such cases, lenders may consider non-traditional credit history.

Understanding Non-Traditional Credit History

Non-traditional credit refers to alternative forms of credit that can be used when traditional accounts like student loans, mortgages, credit cards, or automobile loans are not present.

Lenders often check the three major credit repositories, but if a borrower does not have a valid credit score due to insufficient credit, lenders may verify a payment history for acceptable nontraditional credit references, which can include items like:

- » Cell phone bills
- » Rent payments
- » Insurance premiums
- » Utility bills

When It May Not Be Acceptable

It's important to note that non-traditional credit history isn't always acceptable for use. For instance:

- » When a borrower has a sufficient amount of credit to obtain a score despite limited use.
- » When the representative credit score is less than the minimum required.
- » When traditional credit history shows derogatory references such as prior bankruptcy or foreclosure.

However, certain loan programs like Fannie Mae's HomeReady have exceptions. Therefore it's advisable to check specific guidelines.

Fannie Mae's Eligibility Requirements

Fannie Mae has specific requirements for borrowers without traditional credit scores:

- » If a borrower does not have a score due to insufficient credit, the lender must establish an acceptable nontraditional credit history.
- » The lender must first check all three major repositories to verify the borrower's history and confirm that they do not have a score.
- » If the borrower's information is frozen at one repository and no scores are available from any other repository, the lender may underwrite the transaction following nontraditional requirements.
- » If information is frozen at two or more repositories, the loan is ineligible as nontraditional even though no score is available.
- » The report will indicate if a score could not be produced due to insufficient data.
- » Lenders must ensure that the report accurately reflects information such as name, Social Security number and current residence.

Eligibility Requirements for Manual Underwriting

For the lender to use Manual Underwriting, at least one borrower must not have a credit score and be relying on a non-traditional credit history to qualify for the loan.

For a manually underwritten loan that includes at least one borrower without a credit score who is relying on non-traditional credit to qualify, the following requirements must be met:

- » The property must be a one-unit, principal residence.
- » Non-occupant co-borrowers are permitted, provided the requirements as described in the guidelines, are met in addition to the eligibility requirements described herein.
- » The transaction must be a purchase, or limited cash-out refinance.
- » The loan amount must meet baseline loan limits, and the maximum debt-to-income ratio is 36%.
- » There is no minimum reserve requirement if at least one borrower can document a housing payment history as one non-traditional credit reference. Otherwise, a minimum of 12 months reserves is required.
- » Non-traditional credit history must be documented for each borrower without a credit score.

Eligibility Requirements for DU Loan Casefiles

For DU Loan Casefiles, the following requirements apply:

- » The property must be a one- to four-unit, principal residence, and all borrowers must occupy the property.
- » The transaction must be a purchase or limited cash-out refinance.
- » The loan amount must meet the baseline loan limits—high-balance mortgage loans are not eligible.
- » The loan must be a fixed-rate mortgage.
- » Reserves may be required as determined by DU.

Requirement for Non-Traditional Credit References

The Non-traditional credit references may be required as follows:

- » No verification of non-traditional credit references is required for any borrower when DU conducts a cash flow assessment and issues a message that the third-party asset verification report may be used to satisfy the requirements.
- » Otherwise, a non-traditional credit history must be documented for each borrower without a credit score.
- » If a loan casefile does not receive an Approve/Eligible recommendation, it may receive a more favorable recommendation if a 12-month asset verification report is obtained.
- » In some cases, the loan may still be eligible for manual underwriting. The lender must determine whether the loan meets the requirements for a manually underwritten loan that includes a borrower without a credit score.

As always, be sure to check lender and investor guidelines for program-specific eligibility requirements.

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Example Scenarios

Let's now explore some scenarios to better understand the use of non-traditional credit in mortgage loan underwriting.

Scenario 1: Manual Underwrite

In this scenario, one or more borrowers on the loan do not have a credit score and are relying on non-traditional credit to qualify. The borrower's debt-to-income ratio is 48%, and the property is a duplex that the borrower wants to rent out.

Would the borrower qualify in this scenario?

The answer is **no**. The borrower has a debt-to-income ratio of 48%, which is 12% higher than what is allowed in this scenario. Furthermore, the borrower would have to be the primary resident to qualify in this scenario; the property must be a one-unit, primary residence and would not be eligible due to the property being a duplex.

Scenario 2: DU Loan Casefiles

In this scenario, one of the borrowers has no credit score, the property has four units, and none of the borrowers will occupy the property.

Would this be allowed per the requirements?

The answer is **no**. According to the DU requirements, all borrowers on the loan must occupy the property.

Scenario 3: Dual Borrowers

In this scenario, the loan has two borrowers. One of the borrowers has a valid credit score of 740. The other borrower has zero tradelines and no credit score. The borrower with a credit score is contributing more than 50% of the qualifying income.

Would this be allowed per the DU requirements?

The answer is **yes**. If the borrower with a credit score is contributing more than 50% of the qualifying income, the lender is not required to document a non-traditional credit history for the borrower without a credit score.

Resources

Fannie Mae Selling Guide

- [Section B3-5.4, Nontraditional Credit History](#)
- [B3-5.4-01, Eligibility Requirements for Loans with Nontraditional Credit](#)
- [B3-5.4-02, Number and Types of Nontraditional Credit References](#)
- [B3-5.4-03, Documentation and Assessment of a Nontraditional Credit History](#)
- [B3-2-03, Risk Factors Evaluated by DU](#)
- [B2-2-04, Guarantors, Co-Signers, or Non-Occupant Borrowers on the Subject Transaction](#)
- [B2-2-06, Homeownership Education and Housing Counseling](#)

Freddie Mac Seller/Servicer Guide

- [5201.1 Credit assessment with Loan Product Advisor®](#)