

Quick Reference Guide

FHA Collections/Charge-offs/Judgments & Disputed Accounts

Applies to Case Numbers Assigned on or after October 15, 2013

		If:	Then:
Collections/Charge-offs (Medical accounts excluded)	Determine the cumulative amount of collection/charge-off account balances for all borrowers (including non-purchasing spouse in community property states) NOTE: Collection accounts cannot be paid down to < \$2,000	Less than \$2,000	No action required
		\$2,000 or greater	One of the following required: 1. Account(s) must be paid in full prior to or at closing (sourcing of funds required), or 2. If borrower is currently in a payment plan with creditor, include the monthly payment amount in the DTI calculation, or 3. If borrower not in payment plan, use 5% of the outstanding balance as the monthly payment and include in the DTI calculation
		Manual Underwrite	A letter of explanation is required for each collection/charge-off account. The letter must document the collection/charge-off was not due to borrower's disregard of their financial obligations or inability to manage debt. NOTE: LOE required regardless of account balance(s)
		DU/TOTAL Scorecard "Approve/Eligible"	Letter of explanation not required.
Judgments (Medical accounts included)	Judgments must be paid in full including those of non-purchasing spouse in community property states	Borrower currently in payment plan	Payoff not required if borrower has made payments for a minimum of 3 months, paid as agreed. The payment amount must be included in the DTI calculation. NOTE: Borrower cannot prepay the scheduled payments to satisfy 3 month requirement.
Disputed Accounts Derogatory Information on Credit Report (Medical, non-purchasing spouse accounts and accounts that are result of identity theft excluded)	Borrower required to provide letter of explanation and documentation supporting the basis of the dispute Determine the cumulative amount of disputed accounts with derogatory information for all borrowers Derogatory accounts are defined as: <ul style="list-style-type: none"> • Disputed charge-off accounts, or • Disputed collection accounts, or • Disputed accounts (installment, revolving, etc.) with late payments in the previous 24 months 	\$1,000 or greater	Downgrade to manual underwrite required. Underwriter to determine if disputed account should be considered in the credit decision and if account can remain open or if must be closed prior to loan closing.
		Less than \$1,000	Downgrade to manual underwrite not required
Disputed Accounts Non-Derogatory	Not included in the cumulative amount Non-derogatory accounts defined as: <ul style="list-style-type: none"> • A disputed account with a zero balance, or • A disputed account with late payments aged \geq 24 months or • A disputed account that is current and paid as agreed. 	Non-derogatory disputed accounts on credit report	Downgrade to manual underwrite not required however non-derogatory account information must be considered in the borrower's ability to repay the loan and impact to the borrower's DTI.