



Understanding Alternate Credit

Whenever possible, a credit profile should be established for all customers whose income is being used to qualify. Traditional credit history is information obtained from the 3 National Credit Bureaus (TransUnion, Experian, and Equifax) that shows payment history. Most banks require at least 4 pieces of current traditional history with 12 months of payment history.

For determining a customer's credit worthiness, however, FHA guidelines state "neither the lack of a credit history nor the lifestyle of the customer may be used as a basis for rejection."

WHEN IS NO CREDIT GOOD CREDIT?

For those customers who choose not to use credit (pay cash for everything) or have not yet established sufficient credit with at least 12 months of history, we must make every attempt to develop a credit history from rent verifications, utility payments, or other forms of non-traditional "credit."

However, if this is simply not possible, due to the customer's lifestyle, we can accept a statement signed by the customer in addition to any available "non-traditional" credit items (listed below), confirming that they pay cash for all their purchases, or have not yet established credit, and because of their lifestyle (living with relatives who pay all the utility bills, as an example) are unable to provide any references.

The use of non-traditional credit may apply to:

- Customers who have no traditional established credit history
- Lack sufficient length (12 months) of credit history.
- Lack sufficient quantity (3-4 accounts) of traditional credit history.
- Customers who have minor delinquencies in their traditional credit history and are providing additional non-traditional references to demonstrate credit worthiness

Note: Non-traditional credit is never a "substitute" for a totally delinquent credit history. Customers who have established credit, all of which is delinquent, may not utilize non-traditional credit "in place of" delinquent accounts.

When reviewing loans with non-traditional credit, other aspects such as ratios, income and job stability must meet standard guidelines with no other factors of risk.

Exceptions can be considered by an government underwriter, based on the explanation and circumstances of each case.

COLLECTING ALTERNATE CREDIT

To qualify with non-traditional credit, a minimum of 3-4 references, with a satisfactory 12-month history are required. Copies of 12 months consecutive, cancelled checks with coinciding bills may be provided if a written reference is not available.

A Written "Non-Traditional" Credit Reference Must Have the Following:

1. Length of time that account has been established
2. State that the account is not currently delinquent
3. State that account has not been delinquent more than 30 days in that last 12 months
4. State the number of times the account has been delinquent more than 30 days during the history of the account and the dates of the delinquency.
5. Reference should be on letterhead or an official document showing the origin of the reference.
6. Must list customer's name and account number.
7. Must have original signature of an authorized individual.

All loans will require a satisfactory 12 month landlord reference, showing no late payments. The only exceptions are customers living with family members or active military living in on-base housing.

Additional references should be housing related and may consist of:

Previous landlord/rental payments

Utility bills (gas, electric, telephone, cable TV, etc.)

If the above are not available, other sources with a satisfactory 12-month history may include:

Insurance Premiums (health, life, auto, rental)

Cellular Phone Payments

Child-care references

School tuition

Regular medical bill payment

Regular deposits to a savings account

Loans without traditional credit that utilize alternative credit documentation can be pre-approved based on copies or faxes of the documents. However, prior to closing, the original credit documents signed by an authorized individual of the "non-traditional" credit reference must be received and approved by the underwriter.