FHA Using Bad Credit Report Data to Tighten Borrowing Standards

April 9, 2012 - The FHA is implementing new borrowing standards - based on credit report data - for would-be homeowners that will make the loan qualification process considerably more difficult. Although the FHA has always been tasked with helping low and moderate income borrowers attain the dream of home ownership, over the past three years the agency has seen mortgage defaults surge. The new guidelines are an attempt to stop the hemorrhaging the agency has experienced. But the way they are being applied will make a large number of borrowers ineligible and is likely to raise significant and fundamental questions of fairness.

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Under the new lending guidelines issued by FHA, borrowers will no longer be able to have unresolved collection activity of more than $1,000 showing on their credit reports. This includes items that are being disputed by borrowers and/or errors that show unresolved collections.

Borrowers that attempt to apply for an FHA loan only to find that they don't qualify for due to the new rules will have several choices. They can agree to pay the amount showing on their credit report all at once. In some cases, they can arrange to pay over time. Or they can dispute the amount owed and come to a resolution with the company that filed the credit report item. Unless they opt to pay the amount owed in full, the new rules could mean that it will take months for borrowers to qualify. In the mean time, they are likely to lose out on any home that they were interested in unless they change their borrowing options.

Victims of crime and identity theft can obtain a rule waiver, but the process is cumbersome and time consuming. Other items that can be grounds for a rule waiver include divorce, death of an immediate family member and loss of employment.

FHA loans have become popular options for many borrowers. The FHA offers a variety of low down-payment borrowing options for consumers. And those lower costs impact both up-front and monthly lending charges over the life of the loan. Although there are other lending options for that serve the same audience, FHA loans commonly offer the most attractive overall package to prospective borrowers.

According to estimates, as many as 35% of FHA prospective borrowers will no longer qualify under the new rules. And since as many as 79% of all credit reports contain errors, the rules are likely to have a large impact on borrowers and home sellers nationwide.

byJim Malmberg
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