

FNMA Trended Credit Data Overview



A division of HomeBridge Financial Services, Inc.

9-12-16

WHAT is Trended Credit Data?

- **Trended Credit Data provides an expanded view of the borrower's use of revolving credit showing detailed trade-line information:**

- 1: 24 month account history
- 2: Minimum scheduled payment
- 3: The actual payment made by the borrower
- 4: Account balance history for previous 24 months

Trended	1	01/16	12/15	11/15	10/15	09/15	08/15	07/15	06/15	05/15	04/15	03/15	02/15
Scheduled (\$)	2	240	221	223	216	219	221	224	227	230	217	220	222
Actual (\$)	3	250	223	250	230	230	250	250	250	220	250	230	0
Balance (\$)	4	11976	11003	11120	10792	10915	11045	11189	11333	11478	10811	10962	11093
		01/15	12/14	11/14	10/14	09/14	08/14	07/14	06/14	05/14	04/14	03/14	02/14
Scheduled (\$)		220	223	225	223	220	218	200	203	205	208	-	-
Actual (\$)		250	225	250	250	250	200	220	205	250	250	-	-
Balance (\$)		10976	11120	11240	11116	10990	10870	9989	10118	10237	10392	-	-

NOTE: Trended Credit Data will be provided for all accounts (revolving, mortgage, installment) however DU **only analyzes revolving accounts** in its risk assessment

WHAT is Trended Credit Data? (cont.)

- **Trended Credit Data reporting was developed by Fannie Mae as a new tool in the DU risk assessment model**
- The credit risk factors indicated below are included in the DU risk assessment:

Non-credit risk factors	Credit risk factors
<ul style="list-style-type: none">▪ Equity and loan-to-value ratio▪ Liquid reserves▪ Debt-to-income ratio▪ Loan purpose▪ Loan type▪ Loan term▪ Property type▪ Number of borrowers▪ Self-employed borrowers▪ Occupancy	<ul style="list-style-type: none">▪ Credit history (age of accounts)▪ Utilization and payment history (using trended credit)▪ Recency and severity of accounts with late payments▪ Public records, foreclosures, deed-in-lieu of foreclosures, preforeclosure sales, mortgage charge-offs, and collection accounts▪ Inquiries

Items in blue are new in DU Version 10.0

- **Trended Credit Data is coming soon with the release of DU Version 10.0, scheduled for the weekend of September 24, 2016**
- FNMA will require credit reports that include Trended Credit Data with loans submitted to DU 10.0

WHY DOES THE USE OF TRENDED CREDIT DATA MATTER?

Trended data:



allows a smarter, more thorough analysis of the borrower's credit history



helps creditworthy borrowers obtain access to mortgage credit and sustainable homeownership

HOW WILL TRENDED CREDIT DATA IMPACT DU VERSION 10 APPROVALS?

Including trended credit data will:



improve the accuracy of DU's credit risk assessment



benefit borrowers who regularly pay off their revolving debt

WHY Trended Credit Data?



- **Trended Credit Data will improve the accuracy of DU's risk assessment by allowing DU to evaluate the borrower's ability to manage revolving debt over the most recent 24 months**
- Benefits borrowers who regularly pay off their revolving debt
- Based on analysis by FNMA, borrowers can potentially improve their DU evaluation by paying more than the minimum required or paying off their revolving debt in full each month

WHY Trended Credit Data? (cont.)

- **Trended Credit Data allows DU to analyze a borrower to determine if the borrower is a “TRANSACTOR” or a “REVOLVER”**
 - **“TRANSACTOR”:**
 - ☐ Pays off debt every month **and/or**
 - ☐ Pays more than the minimum payment due every month
 - **“REVOLVER”:**
 - ☐ Pays only the minimum payment due every month
- DU considers “Transactors” a better credit risk than a ‘Revolver’
- Research indicates “Revolvers” default more than “Transactors”

Research has shown that borrowers who	are	than borrowers who
Never exceed their limit	75% Less likely to become delinquent	Exceeded their credit card limit in the last 12 months
Pay off their credit card every month	60% Less likely to become delinquent	Only make their minimum payment each month

Trended Credit Data Requirements



- **A credit report with Trended Credit Data is only required for FNMA transactions**
 - Credit reports with Trended Credit Data are not required for FHA or VA loans submitted to DU nor for FHLMC transactions
- Credit reports with Trended Credit Data are MANDATORY for FNMA loans submitted to DU Version 10.0
 - Loans resubmitted under DU Version 9.3, even after September 24th, do not require Trended Credit Data

- **FNMA does NOT expect the overall percentage loans receiving an “Approve/Eligible” to decline**
- **Trended Credit Data does NOT impact FICO scores**
 - The risk assessment model is in DU
 - FICO scores are calculated outside of DU
 - As such, Trended Credit Data will not be used for re-scores at this time
- **Currently only Equifax and TransUnion will provide credit reports that include Trended Credit Data (this is acceptable to FNMA)**
 - Experian will not offer reports with Trended Credit Data at this time

Trended Credit Data Basics (cont.)



- Trended Credit Data will not appear on all trade-lines; certain creditors will not report every field
- Trended Credit Data may not be present for the following types of accounts:
 - Authorized User
 - Child/Family Support
 - Less than 6 month history
 - Lost/stolen
 - Bankruptcy, Foreclosure, Disputed, Repossession
 - Public Record
 - Duplicate trade
 - Months reported > 24 mos.

Traditional Credit View Example

- Below is a “traditional” credit view example
 - A traditional review of the credit is what Underwriters will continue to perform

DEROGATORY ACCOUNTS											
SHOW	CREDITOR	DATE REPORTED	DATE OPENED	HIGH CREDIT OR LIMIT	BALANCE	PAST DUE	MO REV	30	60	90+	STATUS
			DLA	ACCT TYPE	TERMS						SOURCE
B	<u>AUTO</u> 55555	02/16	06/11 12/15	\$56747 AUTO	\$6187 060 \$1017	\$0	49	6	0	0	CUR WAS 30 <u>XP/TU/EF</u>
Late Dates: 7/15-30, 7/14-30, 12/13-30, 2/13-30, 12/12-30, 5/12-30											

Trended Credit Data Example

- This example reflects the same auto loan in a Trended Credit Data view
 - Note **1** & **2** show the 24 month payment period
 - Note **3** shows the scheduled payment, actual payment made by the borrower, and the ending balance by month
- **THE UNDERWRITER WILL NOT ANALYZE THE TRENDED CREDIT DATA AND WILL CONTINUE TO PERFORM A “TRADITIONAL” CREDIT REVIEW**
- **BELOW IS A VISUAL EXAMPLE OF WHAT TRENDED CREDIT DATA WILL LOOK LIKE ON A CREDIT REPORT**

DEROGATORY ACCOUNTS													
W H O L E	CREDITOR	DATE REPORTED	DATE OPENED	HIGH CREDIT OR LIMIT	BALANCE	PAST DUE	MO REV	30	60	90+	STATUS		
			DLA	ACCT TYPE	TERMS						SOURCE		
B	<u>AUTO</u> 55555	02/16	06/11 12/15	\$58747 AUTO	\$6187 060 \$1017	\$0	49	0	0	0	CUR WAS 30 <u>XP/TLWEE</u>		
Late Dates: 7/15-30, 7/14-30, 12/13-30, 2/13-30, 12/12-30, 5/12-30													
	Trended	01/16	12/15	11/15	10/15	09/15	08/15	07/15	06/15	05/15	04/15	03/15	02/15
	Scheduled (\$)	1017	1017	1017	1017	1017	1017	1017	1017	1017	1017	1017	1017
3	Actual (\$)	0	2185	2034	0	0	3051	0	1017	1017	1017	0	2187
	Balance (\$)	6123	6108	8277	10291	10216	10192	13216	13133	14119	15101	16031	15992
		01/15	12/14	11/14	10/14	09/14	08/14	07/14	06/14	05/14	04/14	03/14	02/14
	Scheduled (\$)	1017	1017	1017	1017	1017	1017	1017	1017	1017	1017	1017	-
	Actual (\$)	0	2034	1017	0	1017	1017	0	1017	1017	1017	1017	-
	Balance (\$)	18141	18097	20034	20952	20901	22884	24862	24801	25758	26710	27611	-

Trended Credit Data Example

- The traditional credit report would only reflect 7/14 and 7/15 as 30 days late in the past 24 months
 - The Trended Credit Data report clearly reflects other months without payments (most likely due to grace period or early payment)
- **THE UNDERWRITER WILL NOT ANALYZE THE TRENDED CREDIT DATA AND WILL CONTINUE TO PERFORM A “TRADITIONAL” CREDIT REVIEW**
- **BELOW IS A VISUAL EXAMPLE OF WHAT TRENDED CREDIT DATA WILL LOOK LIKE ON A CREDIT REPORT**

DEROGATORY ACCOUNTS													
WHOSE	CREDITOR	DATE REPORTED	DATE OPENED	HIGH CREDIT OR LIMIT	BALANCE	PAST DUE	MO REV	30	60	90+	STATUS		
			DLA	ACCT TYPE	TERMS						SOURCE		
B	AUTO 55555	02/16	06/11 12/15	\$56747 AUTO	\$6187 060 \$1017	\$0	49	6	0	0	CUR WAS 30 XP/TU/EF		
Late Dates: 7/15-30, 7/14-30, 12/13-30, 2/13-30, 12/12-30, 5/12-30													
Trended	01/16	12/15	11/15	10/15	09/15	08/15	07/15	06/15	05/15	04/15	03/15	02/15	
Scheduled (\$)	1017	1017	1017	1017	1017	1017	1017	1017	1017	1017	1017	1017	
Actual (\$)	0	2185	2034	0	0	3051	0	1017	1017	1017	0	2187	
Balance (\$)	6123	6108	8277	10291	10216	10192	13216	13133	14119	15101	16031	15992	
	01/15	12/14	11/14	10/14	09/14	08/14	07/14	06/14	05/14	04/14	03/14	02/14	
Scheduled (\$)	1017	1017	1017	1017	1017	1017	1017	1017	1017	1017	1017	-	
Actual (\$)	0	2034	1017	0	1017	1017	0	1017	1017	1017	1017	-	
Balance (\$)	18141	18097	20034	20952	20901	22884	24862	24801	25758	26710	27611		

- **Underwriters will NOT analyze the Trended Credit Data**
 - DU completes the analysis
- **Transactions will continue to require qualification based upon the minimum monthly scheduled payment, even if the borrower is a “Transactor”**
 - As such, no change to qualification requirements. Borrowers will be qualified using the minimum payment, not the payment the borrower has been making

Trended Credit Data FAQs



Q: Will Trended Credit Data change how the credit report is ordered?

A: No. The credit report is ordered the same as it is today

Q: Will there be an additional cost for credit reports with Trended Credit Data?

A: Yes, both Equifax and TransUnion have indicated there will be an increase in the credit report cost but the new cost has not been announced

Q: Is the balance shown on the credit report the balance before or after the payment is applied?

A: It is the balance after the payment is applied

Q: Why are some trended data fields blank?

A: Not all creditors report every data field

Q: Will a borrower who only makes the minimum monthly payment still be able to receive an approval from DU?

A: Yes, while DU will consider the monthly payment, trended credit is only one factor analyzed by DU

Q: Will trended credit impact how the loan is underwritten?

A: No. HomeBridge will continue to rely on the DU decision

Q: Does the use of Trended Credit Data impact what payment is used in the DTI calculation?

A: No, the minimum required payment may still be used for calculating DTI

Q: Does trended credit impact the determination of the credit score?

A: No, the traditional credit score models do not use Trended Credit Data when determining the borrower's credit score

Q: Is a credit report with Trended Credit Data required for FHA or VA loans submitted to DU or Freddie Mac transactions?

A: No, Trended Credit Data is only required for Fannie Mae transactions at this time