

October 6, 2015

TO: State Directors
Rural Development

ATTN: Program Directors
Single Family Housing

FROM: Tony Hernandez /s/ *Tony Hernandez*
Administrator
Housing and Community Facilities Programs

SUBJECT: Credit Reports
Single Family Housing Direct Loan Programs

PURPOSE:

The purpose of this memorandum is to announce changes in the credit reports used in the Single Family Housing (SFH) direct loan programs. Beginning October 1, 2015, the credit report provider will be Equifax Information Services LLC. In addition to changing providers, the type of report used for decision-making purposes will be changed. To improve business processes and follow industry standards, the SFH direct loan programs will utilize Tri-Merged Credit Reports (TMCRs) as ordered and received through UniFi instead of Residential Mortgage Credit Reports (RMCRs).

Beginning October 1, 2015, and until further notice, the credit report fee charged to Section 502 applicants for TMCRs will be \$25 for each individual credit report and \$25 for each joint credit report. For 504 loan applicants, the cost for a TMCR will be absorbed by the Agency. If the be ordered at no cost to the applicant. Verifications such as rental history and employment history will not be performed by the vendor when providing a TMCR.

EXPIRATION DATE:
September 30, 2016

FILING INSTRUCTIONS:
Housing Programs

Form RD 1944-60, Landlord's Verification, and Form RD 1944-61, Credit History Worksheet, are not required if an applicant has a reliable credit score of 640 or higher (be sure to view each applicant separately). These forms are required if the credit score is unreliable and/or is under 640. For a credit score to be considered reliable, the applicant must have a minimum of three trade lines opened and active for at least 12 months during the 24 month period preceding the date of the TMCR. Nontraditional credit will be verified for an applicant with an unreliable credit score (e.g. two opened and active trade lines on the credit report must be supplemented with at least one nontraditional credit verification); though nontraditional credit verifications do not make an unreliable credit score reliable.

The new credit report provider will also provide single-repository credit reports (i.e. infiles) that do not contain a credit score. Since infiles are not used in any decision making process, there is no charge to potential applicants and applicants when one is obtained as part of an unofficial review.

BACKGROUND:

The SFH direct loan programs require that applicants have a credit history that indicates a reasonable ability and willingness to repay obligations. A critical component to making this determination is obtaining a credit report. Field staff must order and use credit reports in a prudent and diligent manner.

IMPLEMENTATION RESPONSIBILITIES:

Field staff members are reminded to follow the proper credit report ordering protocols. New protocols as of October 1, 2015, are noted below.

- **New protocol:** As states are added to the direct automated underwriting system (and no sooner), they will need to order a TMCR for a Section 504 loan regardless of the loan amount. State Offices will be instructed when to begin this new protocol.
- **New protocol:** Advise applicants that they must remove any freeze on their credit reports. Section 502 applicants that fail to remove a freeze prior to the Agency ordering the TMCR will be charged an additional \$25 credit report fee so that a new TMCR may be ordered following a confirmed removal of the freeze.
- A credit report (regardless of type) must not be ordered until a signed Form RD 3550-1, Authorization to Release Information, has been obtained from the appropriate party.
- An infile credit report must only be pulled on a potential applicant who has yet to submit an application or on an applicant whose application cannot be processed due to a lack of available funds (i.e. they will be placed on the waiting list) and an infile on them was not previously obtained.
- A TMCR must only be pulled on an applicant when funds are available to process their application.

- A TMCR must be ordered through UniFi. A credit report from another party (e.g. Self-Help grantee, loan application packager, or leveraged lender) cannot be used in the Agency's decision-making process.
- A TMCR must not be more than six months old at the time of the underwriting decision.
- Before placing an order for a credit report, confirm the accuracy of the relevant information in UniFi (applicant's name, social security number, etc.) and be sure you are ordering the correct type of report. Be diligent since ordering errors cost the Agency and/or the applicant time and money. Ordering errors may also adversely impact the quality of the creditworthiness review.
- Avoid ordering multiples of the same report type on the same person. Both infiles and TMCRs are considered hard inquiries and multiple orders can impact the applicant's credit score.
- Do not order a subsequent report to verify changes to the original report; obtain supplemental information from the applicant and/or a third party.
- The return time on a TMCR will be almost instantaneous. Once a request is submitted, it cannot be cancelled. Therefore, it is imperative that requests are carefully reviewed and are void of errors prior to submission.
- Section 502 applicants will be charged an additional credit report fee if they inadvertently or advertently provide incorrect information that results in the need to order a new TMCR (e.g. the applicant incorrectly entered their Social Security number on their application).
- Equifax has a credit data retention period of 120 days. Within this retention period, credit report orders that match a prior order will only return the results of the prior order; a new report will not be furnished.
- In the event that an applicant reapplies after having an application denied or withdrawn in the recent past, field staff should contact the RD Help Desk to have the TMCR associated with the denied/withdrawn application removed from the vendor's retention files prior to ordering a TMCR on the new application.
- The contact information for Equifax is: Equifax Information Services LLC, 1550 Peachtree Street NW, Mail Drop: H42, ATTN: Katrina Cante, Atlanta, Georgia 30309-2402; telephone (888) 202-4025. This contact information is to be used in Attachment 3-H, Credit Score Disclosure, and in Handbook Letter 15, Standardized Adverse Decision Letter.
- Field staff must not contact Equifax directly. Technical issues related to the credit report must be directed to the RD Help Desk at 800-457-3642, option 2 and option 2 a second time.

Handbook-1-3550 and DLOS Manual references to the previous credit report provider, credit report fees, Residential Mortgage Credit Reports, and RMCRs are superseded by this issuance. Conforming revisions to the programs' guidance will be made as expeditiously as possible.

Field staff with technical questions regarding credit reports should call the RD Help Desk at 800-457-3642, option 2 and option 2 a second time. State staff with policy questions regarding this memorandum should contact the SFH Direct Loan Division at 202-720-1474.

Electronically sent to the State Directors and Program Directors on October 6, 2015, at 10:30 a.m. by the Single Family Housing Direct Loan Division. The State Director will also send to other appropriate parties.