

FHA Single Family Housing Policy Handbook 4000.1, Part II — b. Credit Requirements (TOTAL) (04/10/2025)

Verbatim reproduction of public-domain regulator text · Source: <https://www.hud.gov/hud-partners/single-family-handbook-4000-1> · snapshot 8c03836f77f317e1 · retrieved 2026-05-23

Compiled by **Claude for Compliance** · free to read and download

This document reproduces the regulator's own words verbatim (page headers, footers, and line-break hyphenation removed for readability; no wording changed). Quoted for reference — not legal advice.

b. Credit Requirements (TOTAL) (04/10/2025) i. General Credit Review Requirements (TOTAL) The Mortgagee must obtain a credit report for each Borrower who will be obligated on the mortgage Note. The Mortgagee may obtain a joint report for individuals with joint accounts. The Mortgagee must also obtain a credit report for a non-borrowing spouse if the Borrower resides in a community property state, or if the subject Property is located in a community property state, except when excluded by state law. The credit report must indicate the non-borrowing spouse's SSN, where an SSN exists, was matched with the SSA, or the Mortgagee must either provide separate documentation indicating that the SSN was matched with the SSA or provide a statement that the non-borrowing spouse does not have an SSN. Where an SSN does not exist for a non-

II. ORIGINATION THROUGH POST-CLOSING/ENDORSEMENT A. Title II Insured Housing Programs Forward Mortgages 4. Underwriting the Borrower Using the TOTAL Mortgage Scorecard (TOTAL) Handbook 4000.1 202 Last Revised: 11/26/2025 borrowing spouse, the credit report must contain, at a minimum, the non-borrowing spouse's full name, date of birth, and previous addresses for the last two years. ii. Credit Reports (TOTAL) The Mortgagee must use a traditional credit report. If a traditional credit report is not available or the traditional credit report is insufficient, the Feedback Certificate will show a Refer recommendation, and the Mortgagee must manually underwrite the Mortgage. The Mortgagee must obtain a Tri-Merged Credit Report (TRMCR) from an independent consumer reporting agency. (A) Requirements for the Credit Report (TOTAL) Credit reports must contain all information from at least two credit repositories pertaining to credit, residence history, and public records information; be in an easy to read and understandable format; and not require code translations. The credit report may not contain whiteouts, erasures, or alterations. The Mortgagee must retain copies of all credit reports. The credit report must include:

- the name of the Mortgagee ordering the report;
- the name, address, and telephone number of the consumer reporting agency;
- the name and SSN of each Borrower; and
- the primary repository from which any particular information was pulled, for each account listed.

A truncated SSN is acceptable for FHA mortgage insurance purposes provided that the mortgage application captures the full nine-digit SSN. The credit report must also include:

- all inquiries made within the last 90 Days
- all credit and legal information not considered obsolete under the Fair Credit Reporting Act (FCRA), including information for the last seven years, which consumer reporting agencies have reported as verified and currently accurate, regarding:
- o bankruptcies
- o Judgments
- o lawsuits
- o foreclosures
- o tax liens
- for each Borrower debt listed:
- o the

date the account was opened o high credit amount o required payment amount II. ORIGINATION THROUGH POST-CLOSING/ENDORSEMENT A. Title II Insured Housing Programs Forward Mortgages 4. Underwriting the Borrower Using the TOTAL Mortgage Scorecard (TOTAL) Handbook 4000.1 203 Last Revised: 11/26/2025 o unpaid balance o payment history (B) New Credit Report (TOTAL) The Mortgagee must obtain a new credit report and rescore the Mortgage through TOTAL if the underwriter identifies inconsistencies between any information in the mortgage file and the original credit report. iii. Evaluating Credit History (TOTAL) The Mortgagee must analyze the Borrower's credit history in accordance with the Accept Risk Classifications Requiring a Downgrade to Manual Underwriting (TOTAL) section. If a determination is made that the Mortgage must be downgraded to manual underwriting, the Mortgagee must cease its use of the AUS and comply with all requirements for manual underwriting when underwriting a downgraded Mortgage. (A) Collection Accounts, Charge Off Accounts, Accounts with Late Payments in the Previous 24 Months, and Judgments (TOTAL) The Mortgagee is not required to obtain an explanation of collection accounts, Charge Off Accounts, accounts with late payments, Judgments or other derogatory information. (B) Disputed Derogatory Credit Accounts (TOTAL) (1) Definition Disputed Derogatory Credit Account refers to disputed Charge Off Accounts, disputed collection accounts, and disputed accounts with late payments in the last 24 months. (2) Standard If the credit report utilized by TOTAL Mortgage Scorecard indicates that the Borrower has \$1,000 or more collectively in Disputed Derogatory Credit Accounts, the Mortgage must be downgraded to a Refer and manually underwritten. Exclusions from cumulative balance include: • disputed medical accounts; and • disputed derogatory credit resulting from identity theft, credit card theft or unauthorized use. To exclude these balances, the Mortgagee must include a copy of the police report or other documentation from the creditor to support the status of the accounts. II. ORIGINATION THROUGH POST-CLOSING/ENDORSEMENT A. Title II Insured Housing Programs Forward Mortgages 4. Underwriting the Borrower Using the TOTAL Mortgage Scorecard (TOTAL) Handbook 4000.1 204 Last Revised: 11/26/2025 Disputed Derogatory Credit Accounts of a non-borrowing spouse in a community property state are not included in the cumulative balance for determining if the mortgage application is downgraded to a Refer. (C) Non-derogatory Disputed Accounts and Disputed Accounts Not Indicated on the Credit Report (TOTAL) (1) Definition Non-derogatory Disputed Accounts include the following types of accounts: • disputed accounts with zero balance • disputed accounts with late payments aged 24 months or greater • disputed accounts that are current and paid as agreed (2) Required Documentation and Standard If a Borrower is disputing non-derogatory accounts, or is disputing accounts which are not indicated on the credit report as being disputed, the Mortgagee is not required to downgrade the application to a Refer. However, the Mortgagee must analyze the effect of the disputed accounts on the Borrower's ability to repay the Mortgage. If the dispute results in the Borrower's monthly debt payments utilized in computing the Debt-to-Income (DTI) ratio being less than the amount indicated on the credit report, the Borrower must provide documentation of the lower payments. Non-derogatory disputed accounts are excluded from the \$1,000 cumulative balance limit. (D) Judgments (TOTAL) (1) Definition Judgment refers to any debt or monetary liability of the Borrower, and the Borrower's spouse in a community property state unless excluded by state law, created by a court, or other adjudicating body. (2) Standard The Mortgagee must verify that court-ordered Judgments are

resolved or paid off prior to or at closing. Judgments of a non-borrowing spouse in a community property state must be resolved or paid in full, with the exception of obligations excluded by state law.

II. ORIGINATION THROUGH POST-CLOSING/ENDORSEMENT A. Title II Insured Housing Programs Forward Mortgages 4. Underwriting the Borrower Using the TOTAL Mortgage Scorecard (TOTAL) Handbook 4000.1 205 Last Revised: 11/26/2025 Exception A Judgment is considered resolved if the Borrower has entered into a valid agreement with the creditor to make regular payments on the debt, the Borrower has made timely payments for at least three months of scheduled payments and the Judgment will not supersede the FHA-insured mortgage lien. The Borrower cannot prepay scheduled payments in order to meet the required minimum of three months of payments. The Mortgagee must include the payment amount in the agreement in the Borrower's monthly liabilities and debt. The Mortgagee must obtain a copy of the agreement and evidence that payments were made on time in accordance with the agreement. (3) Required Documentation The Mortgagee must provide the following documentation: • evidence of payment in full, if paid prior to settlement; • the payoff statement, if paid at settlement; or • the payment arrangement with creditor, if not paid prior to or at settlement, and a subordination agreement for any liens existing on title. (E) Inaccuracy in Debt Considered (TOTAL) When an inaccuracy in the amount or type of debt or obligation is revealed during the application process and the correct information was not considered by the AUS, the Mortgagee must: • verify the actual monthly payment amount; • resubmit the Mortgage for evaluation by TOTAL if the cumulative change in the amount of the liabilities that must be included in the Borrower's debt increases by more than \$100 per month; and • determine that the additional debt was not/will not be used for the Borrower's Minimum Required Investment (MRI). (F) Bankruptcy (TOTAL) (1) Standard The Mortgagee must document the passage of two years since the discharge date of any bankruptcy. If the bankruptcy was discharged within two years from the date of case number assignment, the Mortgage must be downgraded to a Refer and manually underwritten.

II. ORIGINATION THROUGH POST-CLOSING/ENDORSEMENT A. Title II Insured Housing Programs Forward Mortgages 4. Underwriting the Borrower Using the TOTAL Mortgage Scorecard (TOTAL) Handbook 4000.1 206 Last Revised: 11/26/2025 (2) Required Documentation If the credit report does not verify the discharge date or additional documentation is necessary to determine if any liabilities were discharged in the bankruptcy, the Mortgagee must obtain the bankruptcy and discharge documents. (G) Pre-Foreclosure Sales (Short Sales) (TOTAL) (1) Definition Pre-Foreclosure Sales, also known as Short Sales, refer to the sales of real estate that generate proceeds that are less than the amount owed on the Property and the lien holders agree to release their liens and forgive the deficiency balance on the real estate. (2) Standard The Mortgagee must document the passage of three years since the date of the Short Sale. If the Short Sale occurred within three years of the case number assignment date, the Mortgage must be downgraded to a Refer and manually underwritten. This three-year period begins on the date of transfer of title by Short Sale. (3) Required Documentation If the credit report does not verify the date of the transfer of title by Short Sale, the Mortgagee must obtain the Short Sale documents. (H) Foreclosure (TOTAL) (1) Standard The Mortgagee must manually downgrade to a Refer if the Borrower had a foreclosure in which title transferred from the Borrower within three years of case number assignment. (2) Required Documentation If the credit report does not verify the date of the transfer of title through the

foreclosure, the Mortgagee must obtain the foreclosure documents. II. ORIGINATION THROUGH POST-CLOSING/ENDORSEMENT A. Title II Insured Housing Programs Forward Mortgages 4. Underwriting the Borrower Using the TOTAL Mortgage Scorecard (TOTAL) Handbook 4000.1 207 Last Revised: 11/26/2025 (I) Deed-in-Lieu of Foreclosure (TOTAL) (1) Definition A Deed-in-Lieu (DIL) of Foreclosure is a loss mitigation home disposition option in which a Borrower voluntarily offers the deed to the Note holder in exchange for a release from all obligations under the Mortgage. (2) Standard The Mortgagee must manually downgrade to a Refer if the Borrower had a DIL of Foreclosure in which title transferred from the Borrower within three years of case number assignment. (3) Required Documentation If the credit report does not verify the date of the transfer of title by DIL of Foreclosure, the Mortgagee must obtain a copy of the DIL of Foreclosure. (J) Credit Counseling/Payment Plan (TOTAL) Participating in a consumer credit counseling program does not require a downgrade to a manual underwriting. No explanation or other documentation is needed. (K) Housing Obligations/Mortgage Payment History (TOTAL) (1) Definition Housing Obligation/Mortgage Payment refers to the monthly payment due for rental or Properties owned. (2) Standard A Mortgage Payment is considered delinquent if not paid within the month due. A Borrower who was granted a mortgage payment forbearance and continues to make payments as agreed under the terms of the original Note is not considered delinquent or late and shall be treated as if not in forbearance provided the Forbearance Plan is terminated at or prior to closing. (a) Late Mortgage Payments for Purchase and No Cash-Out Refinance The Mortgage must be downgraded to a Refer and manually underwritten if any mortgage trade line, including mortgage line-of-credit payments, during the 12 months prior to case number assignment reflects: • three or more late payments of greater than 30 Days; II. ORIGINATION THROUGH POST-CLOSING/ENDORSEMENT A. Title II Insured Housing Programs Forward Mortgages 4. Underwriting the Borrower Using the TOTAL Mortgage Scorecard (TOTAL) Handbook 4000.1 208 Last Revised: 11/26/2025 • one or more late payments of 60 Days plus one or more 30-Day late payments; • one payment greater than 90 Days late; or • that the Borrower has made less than three consecutive monthly housing payments since completion of a mortgage Forbearance Plan. For both purchase and no cash-out refinance transactions, a Mortgage that has been modified must utilize the payment history in accordance with the modification agreement for the time period of modification in determining late housing payments. In addition, where a Mortgage has been modified, the Borrower must have made at least six payments under the modification agreement to be eligible for a no-cash out refinance. A Mortgage that has been granted forbearance must utilize the payment history in accordance with the Forbearance Plan for the time period of forbearance in determining late housing payments. Where any mortgage in forbearance will remain open after the closing of the new FHA-insured Mortgage, the Forbearance Plan must be terminated at or prior to closing. Any Borrower who is granted a forbearance and is otherwise performing under the terms of the Forbearance Plan is not considered to be delinquent for purposes of credit underwriting. (b) Cash-Out Refinance Transactions The Mortgage must be downgraded to a Refer and manually underwritten if any mortgage trade line, including mortgage line-of-credit payments, reflects: • a current delinquency; • any delinquency within 12 months of the case number assignment date; or • the Borrower has made less than 12 consecutive monthly mortgage payments since completion of a mortgage Forbearance Plan. A

Mortgage that has been modified must utilize the payment history in accordance with the modification agreement for the time period of modification in determining late housing payments. Where a Borrower who was granted a mortgage payment forbearance and continues to make payments as agreed under the terms of the original Note, the Mortgage is not required to be downgraded to a Refer provided the Forbearance Plan is terminated at or prior to closing. (3) Required Documentation Where a Mortgage reflects payments under a modification or Forbearance Plan within the 12 months prior to case number assignment, the Mortgagee must obtain: II. ORIGINATION THROUGH POST-CLOSING/ENDORSEMENT A. Title II Insured Housing Programs Forward Mortgages 4. Underwriting the Borrower Using the TOTAL Mortgage Scorecard (TOTAL) Handbook 4000.1 209 Last Revised: 11/26/2025 • a copy of the modification or Forbearance Plan; and • evidence of the payment amount and date of payments during the agreement term. A Forbearance Plan is not required if the forbearance was due to the impacts of the COVID-19 National Emergency. (L) Positive Rental Payment History (TOTAL) (1) Definitions Positive Rental Payment History refers to the on-time payment by a Borrower of all rental payments in the previous 12 months. A rental payment is considered to be on time when it is paid within the month due. A First-Time Homebuyer refers to an individual who has not held an ownership interest in another property in the three years prior to the case number assignment. First-Time Homebuyer includes an individual who is divorced or legally separated and who has had no ownership interest in a Principal Residence (other than joint ownership interest with a spouse) during the three years prior to case number assignment. (2) Standard A Mortgagee may submit the transaction to TOTAL Mortgage Scorecard indicating a Positive Rental Payment History provided: • the transaction is a purchase; • at least one Borrower is identified as a First-Time Homebuyer; • the Minimum Decision Credit Score (MDCS) is 620 or greater; and • at least one Borrower has a documented history of a Positive Rental Payment History with monthly payments of \$300 or more for the previous 12 months. (3) Required Documentation To verify the Borrower's Positive Rental Payment History, the Mortgagee must obtain a copy of the executed rental or lease agreement and one of the following: • written verification of rent from a landlord with no Identity of Interest with the Borrower; • 12 months' canceled rent checks; • 12 months' bank or payment service statements documenting rents paid; or • landlord reference from a rental management company. II. ORIGINATION THROUGH POST-CLOSING/ENDORSEMENT A. Title II Insured Housing Programs Forward Mortgages 4. Underwriting the Borrower Using the TOTAL Mortgage Scorecard (TOTAL) Handbook 4000.1 210 Last Revised: 11/26/2025 Borrowers renting from a Family Member must provide a copy of the executed rental or lease agreement and 12 months' canceled checks or bank statements to demonstrate the Positive Rental Payment History. iv. Evaluating Liabilities and Debts (TOTAL) The Mortgagee must review all credit report inquiries to ensure that all debts, including any new debt payments resulting from material inquiries listed on the credit report, are used to calculate the debt ratios. The Mortgagee must also determine that any recent debts were not incurred to obtain any part of the Borrower's required funds to close on the Property being purchased. Material Inquiries refer to inquiries which may potentially result in obligations incurred by the Borrower for other Mortgages, auto loans, leases, or other Installment Loans. Inquiries from department stores, credit bureaus, and insurance companies are not considered material inquiries. (A) General Liabilities and Debts (TOTAL) The Mortgagee must

determine the Borrower's monthly liabilities by reviewing all debts listed on the credit report, Fannie Mae Form 1003/Freddie Mac Form 65, Uniform Residential Loan Application (URLA), and required documentation. All applicable monthly liabilities must be included in the qualifying ratio. Closed-end debts do not have to be included if they will be paid off within 10 months from the date of closing and the cumulative payments of all such debts are less than or equal to 5 percent of the Borrower's gross monthly income. The Borrower may not pay down the balance in order to meet the 10-month requirement. Accounts for which the Borrower is an authorized user must be included in a Borrower's DTI ratio unless the Mortgagee can document that the primary account holder has made all required payments on the account for the previous 12 months. If less than three payments have been required on the account in the previous 12 months, the payment amount must be included in the Borrower's DTI. Loans secured against deposited funds, where repayment may be obtained through extinguishing the asset and these funds are not included in calculating the Borrower's assets, do not require consideration of repayment for qualifying purposes. The Mortgagee must document that the funds used to pay off debts prior to closing came from an acceptable source, and the Borrower did not incur new debts that were not included in the DTI ratio. Negative income must be subtracted from the Borrower's gross monthly income, and not treated as a recurring monthly liability unless otherwise noted.

II. ORIGINATION THROUGH POST-CLOSING/ENDORSEMENT

A. Title II Insured Housing Programs Forward Mortgages

4. Underwriting the Borrower Using the TOTAL Mortgage Scorecard (TOTAL) Handbook 4000.1 211 Last Revised: 11/26/2025

(B) Undisclosed Debt Other Than a Mortgage (TOTAL) When a debt or obligation (other than a Mortgage) not listed on the mortgage application and/or credit report and not considered by the AUS is revealed during the application process, the Mortgagee must:

- verify the actual monthly payment amount;
- resubmit the Mortgage for evaluation by TOTAL if the cumulative change in the amount of the liabilities that must be included in the Borrower's debt increases by more than \$100 per month; and
- determine that any funds borrowed were not/will not be used for the Borrower's MRI.

(C) Undisclosed Mortgage Debt (TOTAL) When an existing debt or obligation that is secured by a Mortgage but is not listed on the credit report and not considered by the AUS is revealed during the application process, the Mortgagee must obtain one of the following that reflects an acceptable mortgage payment history in accordance with Housing Obligations/Mortgage Payment History (TOTAL):

- a copy of the note and either:
 - o a bank statement; or
 - o canceled checks;
- a credit report supplement; or
- a verification of Mortgage.

The Mortgage must be downgraded to a Refer and manually underwritten if the mortgage history reflects:

- a current delinquency;
- any delinquency within 12 months of the case number assignment date; or
- more than two 30 Day late payments within 24 months of the case number assignment date.

A Mortgage that has been modified must utilize the payment history in accordance with the modification agreement for the time period of modification in determining late Mortgage Payments.

(D) Federal Debt (TOTAL) (1) Definition Federal Debt refers to debt owed to the federal government for which regular payments are being made.

II. ORIGINATION THROUGH POST-CLOSING/ENDORSEMENT

A. Title II Insured Housing Programs Forward Mortgages

4. Underwriting the Borrower Using the TOTAL Mortgage Scorecard (TOTAL) Handbook 4000.1 212 Last Revised: 11/26/2025

(2) Standard The Mortgagee must include the debt. The amount of the required payment must be included in the calculation of the Borrower's total debt to income. (3)

Required Documentation The Mortgagee must include documentation from the federal agency evidencing the repayment agreement and verification of payments made, if applicable. (E) Alimony, Child Support, and Maintenance (TOTAL) (1) Definition Alimony, Child Support, and Maintenance are court-ordered or otherwise agreed upon payments. (2) Standard For Alimony, if the Borrower's income was not reduced by the amount of the monthly alimony obligation in the Mortgagee's calculation of the Borrower's gross income, the Mortgagee must include the monthly obligation in the calculation of the Borrower's debt. Child Support and Maintenance are to be treated as a recurring liability and the Mortgagee must include the monthly obligation in the Borrower's liabilities and debt. (3) Required Documentation The Mortgagee must verify and document the monthly obligation by obtaining the official signed divorce decree, separation agreement, maintenance agreement, or other legal order. The Mortgagee must also obtain the Borrower's pay stubs covering no less than 28 consecutive Days to verify whether the Borrower is subject to any order of garnishment relating to the Alimony, Child Support, and Maintenance. (4) Calculation of Monthly Obligation The Mortgagee must calculate the Borrower's monthly obligation from the greater of: • the amount shown on the most recent decree or agreement establishing the Borrower's payment obligation; or • the monthly amount of the garnishment.

II. ORIGINATION THROUGH POST-CLOSING/ENDORSEMENT A. Title II Insured Housing Programs Forward Mortgages 4. Underwriting the Borrower Using the TOTAL Mortgage Scorecard (TOTAL) Handbook 4000.1 213 Last Revised: 11/26/2025 (F) Non-Borrowing Spouse Debt in Community Property States (TOTAL) (1) Definition Non-Borrowing Spouse Debt refers to debts owed by a spouse that are not owed by, or in the name of the Borrower. (2) Standard If the Borrower resides in a community property state or the Property being insured is located in a community property state, debts of the non-borrowing spouse must be included in the Borrower's qualifying ratios, except for obligations specifically excluded by state law. The non-borrowing spouse's credit history is not considered a reason to deny a mortgage application. (3) Required Documentation The Mortgagee must verify and document the debt of the non-borrowing spouse except for obligations specifically excluded by state law. The Mortgagee must make a note in the file referencing the specific state law that justifies the exclusion of any debt from consideration. If the Borrower resides in a community property state or the Property being insured is located in a community property state, and non-borrowing spouse obligations are not excluded by state law, the Mortgagee must obtain a credit report for the non-borrowing spouse to determine the debt-to-income ratio of the Borrower. The credit report for the non-borrowing spouse may be traditional or non-traditional. (G) Deferred Obligations (TOTAL) (1) Definition Deferred Obligations (excluding Student Loans) refer to liabilities that have been incurred but where payment is deferred or has not yet commenced, including accounts in forbearance. (2) Standard The Mortgagee must include deferred obligations in the Borrower's liabilities. (3) Required Documentation The Mortgagee must obtain written documentation of the deferral of the liability from the creditor and evidence of the outstanding balance and terms of the

II. ORIGINATION THROUGH POST-CLOSING/ENDORSEMENT A. Title II Insured Housing Programs Forward Mortgages 4. Underwriting the Borrower Using the TOTAL Mortgage Scorecard (TOTAL) Handbook 4000.1 214 Last Revised: 11/26/2025 deferred liability. The Mortgagee must obtain evidence of the actual monthly payment obligation, if available. (4) Calculation of Monthly Obligation The Mortgagee must

use the actual monthly payment to be paid on a deferred liability, whenever available. If the actual monthly payment is not available for installment debt, the Mortgagee must utilize the terms of the debt or 5 percent of the outstanding balance to establish the monthly payment. (H) Student Loans (TOTAL) (1) Definition Student Loan refers to liabilities incurred for educational purposes. (2) Standard The Mortgagee must include all Student Loans in the Borrower's liabilities, regardless of the payment type or status of payments. (3) Required Documentation If the payment used for the monthly obligation is less than the monthly payment reported on the Borrower's credit report, the Mortgagee must obtain written documentation of the actual monthly payment, the payment status, and evidence of the outstanding balance and terms from the creditor or student loan servicer. The Mortgagee may exclude the payment from the Borrower's monthly debt calculation where written documentation from the student loan program, creditor, or student loan servicer indicates that the loan balance has been forgiven, canceled, discharged, or otherwise paid in full. (4) Calculation of Monthly Obligation For outstanding Student Loans, regardless of the payment status, the Mortgagee must use: • the payment amount reported on the credit report or the actual documented payment, when the payment amount is above zero; or • 0.5 percent of the outstanding loan balance, when the monthly payment reported on the Borrower's credit report is zero. II. ORIGINATION THROUGH POST-CLOSING/ENDORSEMENT A. Title II Insured Housing Programs Forward Mortgages 4. Underwriting the Borrower Using the TOTAL Mortgage Scorecard (TOTAL) Handbook 4000.1 215 Last Revised: 11/26/2025 Exception Where a student loan payment has been suspended in accordance with COVID-19 emergency relief, the Mortgagee may use the payment amount reported on the credit report or the actual documented payment prior to suspension, when that payment amount is above \$0. (I) Installment Loans (TOTAL) (1) Definition Installment Loans (excluding Student Loans) refer to loans, not secured by real estate, that require the periodic payment of P&I. A loan secured by an interest in a timeshare must be considered an Installment Loan. (2) Standard The Mortgagee must include the monthly payment shown on the credit report, loan agreement or payment statement to calculate the Borrower's liabilities. If the credit report does not include a monthly payment for the loan, the Mortgagee must use the amount of the monthly payment shown in the loan agreement or payment statement and enter it into TOTAL Mortgage Scorecard. (3) Required Documentation If the monthly payment shown on the credit report is utilized to calculate the monthly debts, no further documentation is required. If the credit report does not include a monthly payment for the loan, or the payment reported on the credit report is greater than the payment on the loan agreement or payment statement, the Mortgagee must use the loan agreement or payment statement to document the amount of the monthly payment. If the credit report, loan agreement or payment statement shows a deferred payment arrangement for an Installment Loan, refer to the Deferred Obligations (TOTAL) section. (J) Revolving Charge Accounts (TOTAL) (1) Definition A Revolving Charge Account refers to a credit arrangement that requires the Borrower to make periodic payments but does not require full repayment by a specified point of time. II. ORIGINATION THROUGH POST-CLOSING/ENDORSEMENT A. Title II Insured Housing Programs Forward Mortgages 4. Underwriting the Borrower Using the TOTAL Mortgage Scorecard (TOTAL) Handbook 4000.1 216 Last Revised: 11/26/2025 (2) Standard The Mortgagee must include the monthly payment shown on the credit report for the Revolving Charge Account. Where the credit report does

not include a monthly payment for the account, the Mortgagee must use the payment shown on the current account statement or 5 percent of the outstanding balance. (3) Required Documentation The Mortgagee must use the credit report to document the terms, balance and payment amount on the account, if available. Where the credit report does not reflect the necessary information on the charge account, the Mortgagee must obtain a copy of the most recent charge account statement or use 5 percent of the outstanding balance to document the monthly payment. (K) 30-Day Accounts (TOTAL) (1) Definition A 30-Day Account refers to a credit arrangement that requires the Borrower to pay off the outstanding balance on the account every month. (2) Standard The Mortgagee must verify the Borrower paid the outstanding balance in full on every 30-Day Account each month for the past 12 months. 30-Day Accounts that are paid monthly are not included in the Borrower's DTI. If the credit report reflects any late payments in the last 12 months, the Mortgagee must utilize 5 percent of the outstanding balance as the Borrower's monthly debt to be included in the DTI. (3) Required Documentation The Mortgagee must use the credit report to document that the Borrower has paid the balance on the account monthly for the previous 12 months. The Mortgagee must use the credit report to document the balance, and must document that funds are available to pay off the balance in excess of the funds and Reserves required to close the Mortgage. (L) Contingent Liabilities (TOTAL) (1) Definition A Contingent Liability refers to a liability that may result in the obligation to repay only when a specific event occurs. For example, a contingent liability exists II. ORIGINATION THROUGH POST-CLOSING/ENDORSEMENT A. Title II Insured Housing Programs Forward Mortgages 4. Underwriting the Borrower Using the TOTAL Mortgage Scorecard (TOTAL) Handbook 4000.1 217 Last Revised: 11/26/2025 when an individual can be held responsible for the repayment of a debt if another legally obligated party defaults on the payment. Contingent liabilities may include Co-signer liabilities and liabilities resulting from a mortgage assumption without release of liability. (2) Standard The Mortgagee must include monthly payments on contingent liabilities in the calculation of the Borrower's monthly obligations unless the Mortgagee verifies and documents that there is no possibility that the debt holder will pursue debt collection against the Borrower should the other party default or the other legally obligated party has made 12 months of timely payments. When a contingent liability is created by a divorce decree or other court order, evidence that the other legally obligated party has made 12 months of timely payments is not required. (3) Calculation of Monthly Obligation The Mortgagee must calculate the monthly payment on the contingent liability based on the terms of the agreement creating the contingent liability. (4) Required Documentation (a) Mortgage Assumptions The Mortgagee must obtain the agreement creating the contingent liability or assumption agreement and deed showing transfer of title out of the Borrower's name. (b) Cosigned Liabilities If the cosigned liability is not included in the monthly obligation, the Mortgagee must obtain documentation to evidence that the other party to the debt has been making regular on-time payments during the previous 12 months. (c) Court-Ordered Divorce Decree or Other Court Order The Mortgagee must obtain a copy of the divorce decree or other court order ordering the spouse or other legally obligated party to make payments. (M) Collection Accounts (TOTAL) (1) Definition A Collection Account refers to a Borrower's loan or debt that has been submitted to a collection agency by a creditor. II. ORIGINATION THROUGH POST-CLOSING/ENDORSEMENT A. Title II Insured Housing Programs Forward Mortgages 4. Underwriting the Borrower Using the TOTAL Mortgage

Scorecard (TOTAL) Handbook 4000.1 218 Last Revised: 11/26/2025 (2) Standard If the credit reports used in the TOTAL Mortgage Scorecard analysis show cumulative outstanding collection account balances of \$2,000 or greater, the Mortgagee must: • verify that the debt is paid in full at the time of or prior to settlement using acceptable Sources of Funds (TOTAL); • verify that the Borrower has made payment arrangements with the creditor and include the monthly payment in the Borrower's DTI; or • if a payment arrangement is not available, calculate the monthly payment using 5 percent of the outstanding balance of each collection and include the monthly payment in the Borrower's DTI. Collection accounts of a non-borrowing spouse in a community property state must be included in the \$2,000 cumulative balance and analyzed as part of the Borrower's ability to pay all collection accounts, unless excluded by state law. (3) Required Documentation The Mortgagee must provide the following documentation: • evidence of payment in full, if paid prior to settlement; • the payoff statement, if paid at settlement; or • the payment arrangement with creditor, if not paid prior to or at settlement. If the Mortgagee uses 5 percent of the outstanding balance, no documentation is required. (N) Charge Off Accounts (TOTAL) (1) Definition Charge Off Account refers to a Borrower's loan or debt that has been written off by the creditor. (2) Standard Charge Off Accounts do not need to be included in the Borrower's liabilities or debt. (O) Private Savings Clubs (TOTAL) (1) Definition Private Savings Club refers to a non-traditional method of saving by making deposits into a member-managed resource pool. II. ORIGINATION THROUGH POST-CLOSING/ENDORSEMENT A. Title II Insured Housing Programs Forward Mortgages 4. Underwriting the Borrower Using the TOTAL Mortgage Scorecard (TOTAL) Handbook 4000.1 219 Last Revised: 11/26/2025 (2) Standard If the Borrower is obligated to continue making ongoing contributions under the pooled savings agreement, this obligation must be counted in the Borrower's total debt. The Mortgagee must verify and document the establishment and duration of the Borrower's membership in the club and the amount of the Borrower's required contribution to the club. (3) Required Documentation The Mortgagee must also obtain the club's account ledgers and receipts, and verification from the club treasurer that the club is still active. (P) Business Debt in Borrower's Name (TOTAL) (1) Definition Business Debt in Borrower's Name refers to liabilities reported on the Borrower's personal credit report, but payment for the debt is attributed to the Borrower's business. (2) Standard When business debt is reported on the Borrower's personal credit report, the debt must be included in the DTI calculation, unless the Mortgagee can document that the debt is being paid by the Borrower's business, and the debt was considered in the cash flow analysis of the Borrower's business. The debt is considered in the cash flow analysis where the Borrower's business Tax Returns reflect a business expense related to the obligation, equal to or greater than the amount of payments documented as paid out of company funds. Where the Borrower's business Tax Returns show an interest expense related to the obligation, only the interest portion of the debt is considered in the cash flow analysis. (3) Required Documentation When a self-employed Borrower states debt appearing on their personal credit report is being paid by their business, the Mortgagee must obtain documentation that the debt is paid out of company funds and that the debt was considered in the cash flow analysis of the Borrower's business. (Q) Obligations Not Considered Debt (TOTAL) Obligations not considered debt include: • medical collections • federal, state, and local taxes, if not delinquent and no payments are required II. ORIGINATION THROUGH POST-CLOSING/ENDORSEMENT A. Title II Insured Housing

Programs Forward Mortgages 4. Underwriting the Borrower Using the TOTAL Mortgage Scorecard (TOTAL) Handbook 4000.1 220 Last Revised: 11/26/2025 • automatic deductions from savings, when not associated with another type of obligation • Federal Insurance Contributions Act (FICA) and other retirement contributions, such as 401(k) accounts • collateralized loans secured by depository accounts • utilities • child care • commuting costs • union dues • insurance, other than property insurance • open accounts with zero balances • voluntary deductions, when not associated with another type of obligation

Full text, always current, at <https://claudeforcompliance.com/regs/hud-4000-1-ii-b-credit-requirements-total/> · register hud-4000-1-ii-b-credit-requirements-total · © public domain (U.S. Government work) · compiled & source-verified by Claude for Compliance (claudeforcompliance.com)