

## Understanding Nontraditional Credit

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If one or more of your borrowers do not have a credit score or a limited credit history, a nontraditional credit history may be established

*All three credit repositories must be checked to determine that no credit score(s) exist*

Guidelines for nontraditional credit differ by underwriting method

- **MPF Traditional Product:** Desktop Underwriter® (DU®) or Loan Product Advisor® (LPA®) vs. MPF Traditional manual underwriting guidelines
- **MPF Xtra Product:** DU vs. Fannie Mae's manual underwriting guidelines





## What if a credit score could not be produced due to insufficient credit?

- Nontraditional mortgage credit reports may be obtained from a consumer credit reporting agency
- Lenders may also document a borrower's nontraditional credit history by using information provided directly from the borrower or the creditor



# Where to Begin



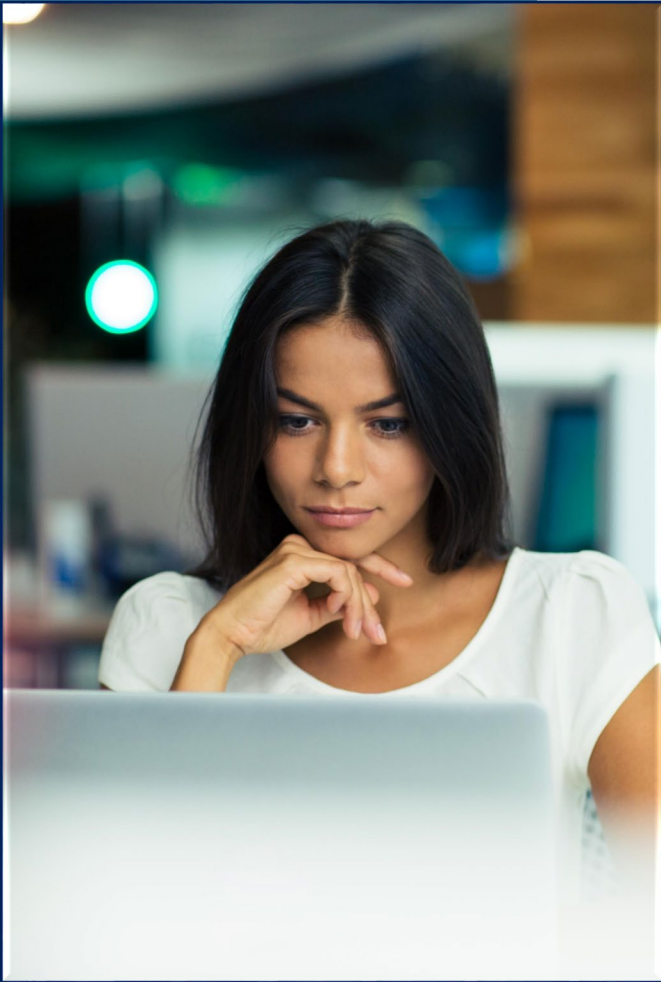
## Steps to take

- Determine whether the borrower has an eligible housing expense
- Next, confirm if the borrower(s) has any additional nontraditional credit references
- If you are requesting a nontraditional credit report from a consumer credit reporting agency, the agency should conduct the interview with the borrower
- Credit sources should include a history that covers at least the most recent 12-month period
- **All credit sources should be included, not just those that reflect an acceptable performance**

# Housing Payments



- Rental payments can be verified through an individual landlord or a management company
- Documentation of a housing payment history for additional nontraditional credit borrowers is not required
- If the borrower owns their property free and clear, real estate tax payments may be used
- If two or more borrowers share the housing payment (for example, they are both named on the lease), that documentation counts as one source of nontraditional credit documentation for each borrower, even if only one borrower has been making the payments



**You are reviewing a borrower's cancelled rent checks and notice they made multiple timely payments that total the full monthly lease payment**

**Is this acceptable? Yes**

**What if one of the checks was from a roommate who is not a borrower? No**

The types of non-housing credit that can be used to develop a nontraditional credit history are those that require the borrower to make periodic payments on a regular basis

Payment intervals should not be longer than every three months

*If real estate tax payment are used, the three-month requirement does not apply if installments are made less frequently*

- Utilities
- Medical insurance (not paid through payroll)
- Medical bill installment payments
- Cell phone payments
- School tuition payments
- Childcare
- Auto loans
- Voluntary payments to a payroll savings plan or stock purchase plan
- Voluntary payments to a checking or savings account
- Life insurance payments

*Can you think of any others?*



## Obtaining credit references directly from a creditor for non-housing payments

### The following information must be collected:

- Creditor name
- Name of the individual providing the reference
- Date the account was opened
- The amount of highest credit
- The current status of the account
- Unpaid balance
- Payment history must be stated in a *number of times past due* format (0 X 30, 0 X 60, 0 X 90) **NOTE:** Vague statements such as *current*, *satisfactory*, or *pays as agreed* are not acceptable by themselves



## When is the creation of a nontraditional credit history prohibited?



- When you can obtain a credit score despite the borrower's limited use of credit
- If the borrower has enough credit to receive a credit score but the score is less than the minimum required\*
- When the borrower's traditional credit history shows significant derogatory references such as a prior bankruptcy or foreclosure, the borrower must re-establish credit (with a score) and the applicable waiting period must apply

*\*An exception is permitted for certain HomeReady loans for borrowers with low credit scores. See B5-6-02, HomeReady Mortgage Underwriting Methods and Requirements, for additional information*

# Using DU or LPA

# Automated Underwriting



**When specific conditions are met, DU and LPA can be used to underwrite loans that are lacking credit scores**

- Nontraditional credit history must be established, or some lenders may utilize a third-party asset verification service offered through Fannie Mae or Freddie Mac
- Integrated third-party asset verifications can provide a borrower cash flow assessment and, in some cases a rental payment history



# Fannie Mae DU

**When at least one borrower has a minimum of one credit or installment account reported on their credit report**

- DU will assess the risk using the borrower's reported credit
- Loans are subject to standard eligibility guidelines
- No verification of nontraditional credit references is required for any borrower when DU conducts a *cash flow assessment* and issues a message that the third-party asset verification report may be used to satisfy the requirements
- Otherwise, a nontraditional credit history must be documented for each borrower as noted in DU

# Fannie Mae DU

When **NO** borrower has at least one credit account or installment account reported on their credit report

- The property must be a 1-4-unit, primary residence
- Purchase or limited cash-out refinance
- Reserves will be determined by DU
- No verification of nontraditional credit references is required for any borrower when DU conducts a cash flow assessment and issues a message that the third-party asset verification report may be used to satisfy the requirements
- Otherwise, a nontraditional credit history must be documented for each borrower as noted in DU
- **If a purchase transaction, at least one borrower must complete homeownership education prior to closing**

# Fannie Mae DU

## Minimum Number of Credit References (includes HomeReady®)

### If no borrower has a credit score

At least **two** credit references are required unless there's a message in DU stating that a third-party asset verification may be used to satisfy the requirements

### If there's a borrower with a credit score that contributes:

**50% or less** of the qualifying income, at least **two** credit references are required for each borrower without a score

**50% or more** of the qualifying income, then **no** credit references are required for the borrowers without a credit score

# Fannie Mae DU

## Housing Payment History Requirements

**The borrower's housing payment history must be documented for the most recent consecutive 12-month period**

- **Examples include** cancelled checks, landlord verifications, money orders, and bank statements
- If at least one borrower can document a housing payment the loan has met the housing payment history requirement
- If two or more borrowers on a loan share the housing payment (i.e., both are on the lease) then the documentation counts as a credit reference for each borrower
- **Loans underwritten with DU must include a housing payment reference**



# Freddie Mac LPA

**When at least one borrower has a credit score, but a co-borrower (or borrowers) does not have a credit score**

- Purchases or no cash-out refinance transactions only
- 1-unit property, occupied by all borrowers as their primary residence
- If the borrower(s) without a usable credit score contributes 50% or more of the total monthly income, the following requirements must be met:
  - Each borrower without a credit score must have at least **two** payment references\*
  - Each payment reference must have existed for at least the past 12 months
  - At least one borrower without a score must have a housing payment history verified for at least the past 12 months
  - References other than housing cannot have more than one 30-day delinquency and may have no 60-day or greater delinquencies
  - Borrowers without a credit score may not have any collections (other than medical), judgements, or tax liens in the past 24 months

*\*If two or more borrowers don't have a credit score but have the same payment reference, then the payment reference counts for each borrower*

# Freddie Mac LPA

When **NO** borrower has a credit score, LPA will apply the following requirements

- Purchases or no cash-out refinances only
- 1-unit property, occupied by all borrowers as their primary residence
- LTV/TLTV cannot exceed 95%
- The **same requirements listed on the previous slide** relating to the number of payment references, housing payment history, delinquencies, and other derogatory credit items apply
- If the credit reputation for all borrowers is established using only non-credit references (such as rent, utilities, insurance), at least one borrower must participate in a **homeownership education program** before the note date

## Freddie Mac Related FAQ



**You are reviewing a lease that shows total monthly rent  
of \$1,200 per month**

Your borrower pays \$400 towards the rent that is shared with two other people (non-borrowers)

Can the borrower document their rent payments of \$400 for their share?

**No**

Documentation must show timely payment of the full \$1,200  
being paid by the borrower

If all tenants are borrowers, documentation showing the full  
\$1,200 paid would be acceptable

# Manual Underwriting



# Fannie Mae MPF Xtra Product and MPF Traditional Product



## If one or more borrowers on the loan does not have a credit score, the following requirements apply

- Purchases and limited cash-out refinances only
- 1-unit, primary residences only
- Non-occupant co-borrowers are permitted provided they meet the guideline requirements
- The maximum debt-to-income ratio is **36%**
- High-balance loans are not eligible
- No minimum reserve requirement if at least one borrower can document a housing payment history otherwise a minimum of 12 months of reserves are required
- Each borrower without a credit score must have a nontraditional credit history

# Fannie Mae MPF Xtra Product and MPF Traditional Product



## Number of Nontraditional Credit References

- **Four** credit references for each borrower without a credit score
- MPF Xtra HomeReady permits **three** credit references for each borrower without a credit score
  - **HomeReady note:** *If a borrower on a loan has no credit score and a nontraditional history cannot be documented, the transaction is still eligible provided the borrower does not contribute more than 30% of the qualifying income*
- Manually underwritten loans **do not require a housing payment** as one of the nontraditional credit references but if no borrower on the loan has a housing history, a minimum of 12 months of reserves is required

# Fannie Mae MPF Xtra Product and MPF Traditional Product

Fannie Mae Selling Guide: B3-5.4-01  
MPF Traditional Selling Guide: 5.13.1.3

## Purchase Transactions

If all borrowers are relying solely on nontraditional credit to qualify, homeownership education **is not** required for manually underwritten **MPF Traditional** loans

Manually underwritten **MPF Xtra** loans **do require** homeownership education when all borrowers are relying solely on nontraditional credit to qualify



# Frozen Credit Information



## True or False

If the borrower's credit information is frozen at one of the credit repositories, and no credit score is available from any other repository, you may underwrite the loan using nontraditional credit

**TRUE**

What if credit information is frozen at two or more of the credit repositories?

Can the loan be underwritten using nontraditional credit?

**NO, the loan is ineligible**



## MPF Service Center

**Phone:** (877) 345-2673

**Email:** [MPF-Help@fhlbc.com](mailto:MPF-Help@fhlbc.com)

**Hours:** 8:30 AM to 4:30 PM CT



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