

Focus on Credit and Liabilities

August 27, 2025



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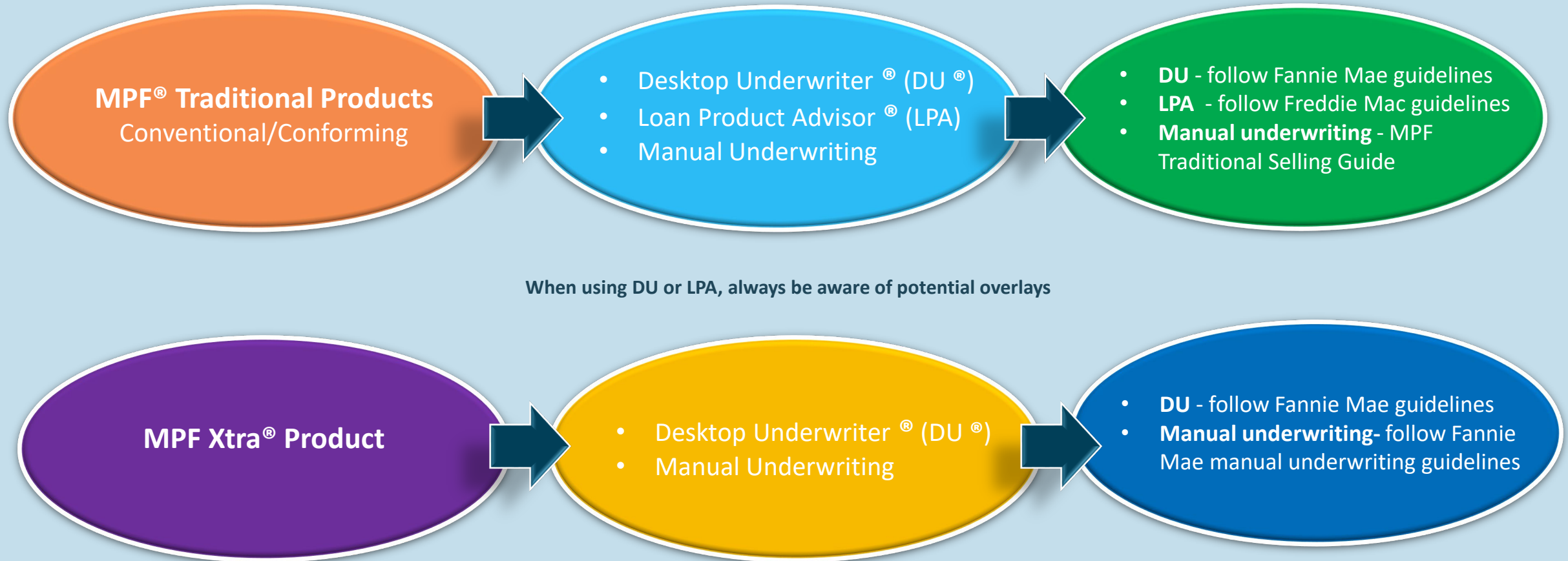
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Underwriting Methods



Common Liability Types and Payment Considerations

Take a Guess

According to Experian, in 2024, what was the average FICO score?

- a. 672
- b. 691
- c. 715
- d. 727

c. 715

The average FICO score remained consistent with 2023



Revolving Accounts

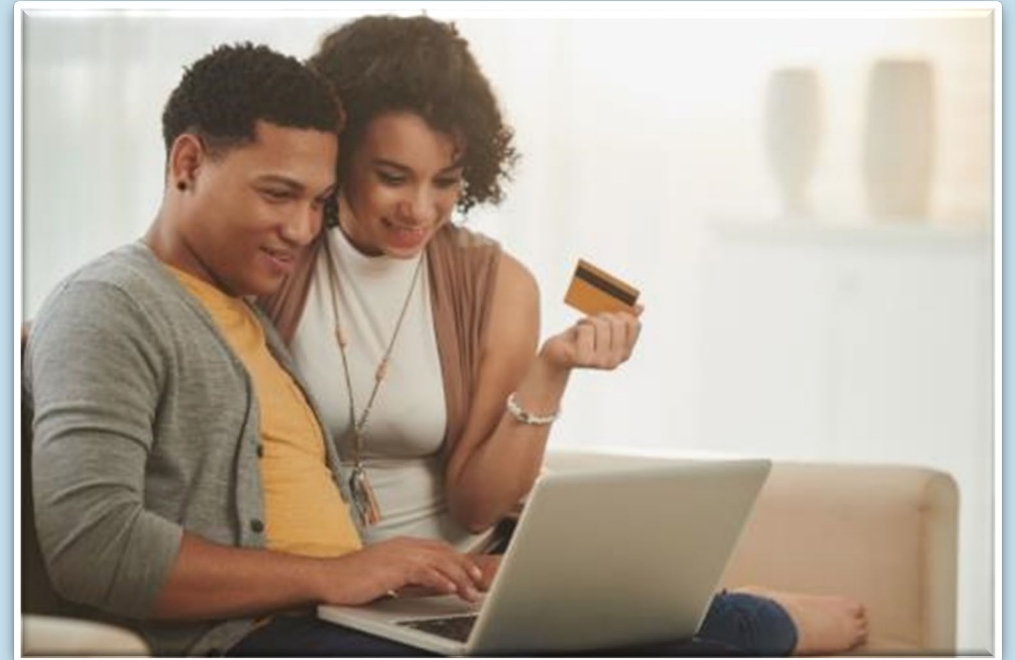


- Use the monthly minimum payment reflected on the credit report
- If there's no monthly payment listed on the credit report, or no supplemental documentation to support a payment, use **5%** of the outstanding balance
- If the outstanding balance is less than \$200, unless otherwise noted, use a payment of **\$10.00**
- If the account balance is being paid off by the borrower at or prior to closing, the payment may be omitted from the borrower's monthly obligations

Open-Ended/30-Day Accounts

The full amount of the outstanding account balance must be used in the borrower's debt-to-income (DTI) ratio *unless*

- The borrower has sufficient verified funds to pay off the balance
- Verified funds must be in addition to any funds needed to close and required reserves
- The same applies if there is a current balance but no payment reflected on the credit report



Installment Loans

Installment debt with <10 payments remaining may be excluded **unless**

- The payment impacts the borrower's ability to repay the mortgage during the months immediately after closing, especially if the borrower has limited cash reserves
- The installment loan is a lease *

*Some solar power leases with more than 10 payments remaining may be excluded from the DTI ratio, see Fannie Mae B2-3-04 or Freddie Mac 5601.4 for details



Let's talk about buy now, pay later plans (BNPLs)

- May show on the credit report but sometimes the terms are not clearly stated
- Typically, most are paid in four or less payments, but some can have longer terms
- If the number of remaining payments cannot be verified and the payment results in the DTI being too high, you may have to obtain evidence to confirm the term
- Watch for payments on bank statements, they may not show up on a credit report



Your borrower tells you that a portion of their funds to close is coming from a loan against their cryptocurrency. Can they use those funds and if so, do you have to hold the payment against them?

- a. Yes, they can use the funds, and you do not have to hold the payment against them
- b. Yes, they can use the funds, but you must hold the payment against them
- c. No, the funds are not an eligible source, and the payment must be held against them

b. Keep in mind that the borrowed funds must be converted to dollars and deposited in a verified account

Loans against most other financial assets do not carry the requirement of including the payment in the DTI ratio



Student Loans

Use the monthly payment reflected on the credit report

If no payment is reflected, use either 1% of the outstanding loan balance* or a fully amortizing payment using the documented loan repayment terms

Is the loan in deferment?

If so, the payment must be included using 1% of the outstanding balance* or a fully amortizing payment using the documented loan repayment terms

Income-driven payment plans with a \$0 payment reflected on the credit report

Obtain documentation to verify the actual payment is \$0. If that is confirmed, then no payment is required

*Freddie Mac permits a calculation based on 0.5% of the outstanding balance.

Other Liability Types



Lease Payments (most common - automobiles)

- Considered in the borrower's monthly obligations regardless of the number of months remaining



Home Equity Lines of Credit (HELOCs)

- Use the payment on the credit report or if not reflected, obtain borrower documentation
- If there's no balance, a payment does not have to be included in the borrower's monthly obligations

Other Liability Types

MPF Traditional Selling Guide: 5.12.3.4
Fannie Mae Selling Guide: B3-6-05
Freddie Mac Selling Guide 5401.2

David is reviewing a credit report and sees that the borrowers have an account listed as a mortgage

When he asks the borrowers about it, they say it's for a timeshare property

What should David do?

- a. Consider the loan as mortgage debt
- b. Consider the debt as an installment loan

b. Even if showing as a mortgage, the debt should be classified as installment debt

What if the borrower also pays a maintenance fee associated with the timeshare? Do you need to include it in their DTI ratio? NO



Alimony, Child Support, and Separate Maintenance

If more than ten payments remain, those payments must be considered as part of the borrower's monthly obligations

- Voluntary payments do not need to be considered, only those that are part of a written legal agreement
- Watch for obligations that may be appearing on pay-stubs or deductions from bank accounts
- A divorce decree, court order, or separation agreement (as applicable) must be obtained



Alimony and Separate Maintenance



How to Treat Alimony or Separate Maintenance Payments (does not apply to child support)

- **Fannie Mae:** you have the option to subtract the payment from the borrower's qualifying income or consider the payment in the borrower's DTI
- **MPF Traditional manual underwriting:** same as Fannie Mae
- **Freddie Mac:** you must subtract the payment from the borrower's qualifying income

Business Liabilities

Randall has a Small Business Association (SBA) loan on his credit report. What do you need to document to not hold this debt against him?

- a. The account has no history of delinquent payments
- b. 12 months of cancelled checks (or equivalent) that show his business is paying the obligation
- c. Evidence that the obligation is considered in the cash flow analysis of the business
- d. All the above

The answer is d.



Debts Paid By Others

Robert (your borrower) owns a rental home with his sister, Lisa

Robert tells you that he and Lisa each claim 50% of the rental income and expenses on their tax returns

- a. Complete your rental analysis using Robert's portion of the income and expenses shown on Schedule E, subtract the full PITIA
- b. Use 75% of the current lease and subtract the full PITIA
- c. Complete your rental analysis by doubling the income and expenses shown on his Schedule E, subtract the full PITIA

b. Best to use the lease method here. You are only seeing Robert's tax return and have no idea what Lisa shows for income and expenses.



Non-Traditional Credit

Nontraditional Credit

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

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

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

In October, we will be holding a webinar dedicated exclusively to nontraditional credit guidelines

Watch your MPF Program announcements for more details!



Adverse Credit Events

DU: Past Due, Collections, and Charge-Offs

- Past due accounts (not reported as collections) must be brought current
- **1-unit primary residence:** borrowers are not required to pay off outstanding collections or non-mortgage charge-offs
- **2-4-unit owner-occupied or second home:** collections and non-mortgage charge-offs totaling more than \$5,000 must be paid in full prior to or at closing
- **Investment properties:** individual collections and non-mortgage charge-offs greater than \$250 and accounts that total more than \$1,000 must be paid in full prior to or at closing

LPA: Past Due, Collections, and Charge-Offs

Freddie Mac LPA

- Freddie Mac does not seem to have specific policies about the payment of past due, collections, and charge-offs
- However, any item that has the potential to impact first lien position, must be paid off prior to or at closing

MPF Traditional Manual Underwriting and DU

Items that must be paid off prior to or at closing

**Delinquent
taxes**

Judgements

Charge-offs
(non-mortgage
accounts)

Tax liens

**Mechanic's
Liens**

**Any lien that could
affect first lien
position**

Federal Income Tax Installment Agreements

Jeff has delinquent federal income taxes he incurred from a former business venture

If he has an IRS installment plan, what is needed to consider a monthly payment (instead of paying it in full)?

- a. A copy of an approved IRS installment agreement showing the terms of repayment, payment amount and amount due
- b. Documentation to show that Jeff is current on the payments
- c. Make sure Jeff has made at least six payments
- d. Ensure there is no *Notice of Federal Tax Lien* recorded/filed against Jeff

All but c.

Only one payment needs to be made prior to closing



Adverse Credit Events

Derogatory Event	Waiting Period	Waiting Period with Extenuating Circumstances
Chapter 7 or 11 Bankruptcy	Four years	Two years
Chapter 13 Bankruptcy	Two Years from discharge date Four Years from dismissal date	Two years from discharge date Two years from dismissal date
Multiple Bankruptcy Filings	Five years if more than one filing within the past seven years	Three years from the most recent discharge or dismissal date

Adverse Credit Events

Derogatory Event	Waiting Period	Waiting Period with Extenuating Circumstances
Foreclosure	Seven years	<p style="text-align: center;">Three years</p> <p>Additional requirements after three years up to seven years:</p> <ul style="list-style-type: none"> • 90% max LTV • Purchase, principal residence • Limited cash-out refi, all occupancy types <p><i>Note: the purchase of second homes, cash-out refinances (any occupancy type) are not permitted until the seven-year waiting period has elapsed.</i></p>
Deed-in-Lieu or Pre-Foreclosure/Short Sale	Four years	<p style="text-align: center;">Two years</p>

Did You Know?

- Bankruptcies can stay on a credit report for ten years, while other items may drop off after seven years.
- Positive information can remain on a credit report indefinitely but most closed accounts that were paid as agreed age off after ten years.
- Bankruptcies can cause a score to drop 130 – 150 points. If credit is re-established, it can take around five years to go back to the pre-bankruptcy score range.
- Negative items vary. The Fair Reporting Credit Act (FRCA) covers most time limits for reporting negative items, but they may vary due to state law.
- Late payments may be reported for up to seven years from when the delinquency occurred.

MPF Contacts and Resources

MPF Service Center

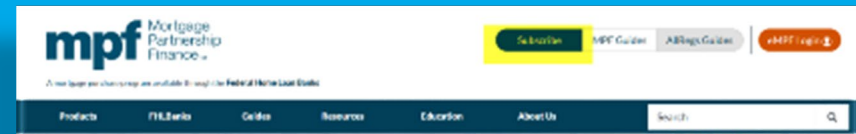
Email - MPF-Help@FHLBC.com

Hours - 8:30 am to 4:30 pm CST

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