

FHA Manual Downgrade for disputed accounts **Announcement 2010-14**

July 30, 2010

Overview Please note that F.H.A. has clarified their stance on credit reports with disputed accounts, which is effective on any loan that has not closed and funded with CHF.

Credit Evaluation: FHA's stance now coincides with FNMA- a disputed account does not allow the automated engine to properly access the credit profile of the borrower, thus the loan will have to be downgraded to a manual underwrite. At this time, DU does not acknowledge a disputed account like FNMA, however, total scorecard requires a downgrade.

Manual Downgrades

As a result, the loan must adhere to the more conservative guidelines of FHA, which could result in a declination. You should pay close attention to the following:

- DTI generally cannot exceed 43%
- There should be no derogatory credit in the most recent 12 month period
- Credit explanations on all derogatory credit required
- Verification of rent required-12 months cancelled checks
- All pages to a bankruptcy required

Note: the above are the most critical aspects of a loan decision but other conditions may be required.

The only solution would be if the dispute were to be removed from all three bureaus (which can take 6 to 8 weeks), a new credit report would have to be obtained by CHF, DU will be ran on the loan and it must stay approve/eligible.

Effective Date These updated guidelines are effective immediately for all loans.

Questions If you have any questions regarding any information in this announcement, please feel free to contact your account executive or any of our staff in our corporate office.

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