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FHA Moves to Include On-Time Rental Payments for First-Time Buyers

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September 28, 2022 Melissa Dittmann Tracey

The Federal Housing Administration published a letter to lenders on Tuesday urging them to consider including a borrower’s positive rental payment history when applying for FHA-insured financing. The move is believed to be a boost for first-time home buyers to help to improve their credit scores when applying for a mortgage, the memo reads.

“If you’re regularly paying your rent on time, that’s a good indication you will also pay your mortgage on time,” says Julia Gordon, Federal Housing commissioner. “We hope that adding this positive factor to all of the characteristics currently considered in an FHA credit evaluation will increase access to affordable FHA-insured mortgages for first-time home buyers.”

The FHA will consider positive rental payment history as the on-time payment of all rental payments over the last 12 months. Lenders originating purchase mortgages for FHA insurance will be required to obtain verification of the borrower’s timely rental payments and indicate it on their TOTAL Mortgage Scorecard, which the FHA uses to evaluate borrower credit history and mortgage application information when underwriting loans.

“This change makes FHA requirements more flexible and can help remove barriers to homeownership, particularly for those with

nontraditional credit or thin credit files,” says Julienne Joseph, deputy assistant secretary for single-family housing.

The FHA’s move follows on the heels of an announcement by Experian, one of the main credit bureaus, earlier this month that its Experian Boost program would offer a way for consumers to add qualifying, positive residential rental payments directly to their credit file. Experian’s research has determined that 66% of its consumers will see an instant increase in their FICO score by factoring in on-time rental payment data. The credit bureau said consumers who would see the biggest improvement—of about 14 points—are those with thin credit files or low FICO scores.

Also, Fannie Mae launched this week a “Multifamily Positive Rent Payment Reporting” pilot program, which is aimed at helping renters build their credit histories and boost their credit score. The program allows eligible property owners to share on-time rent payment data through a system to the three major credit bureau’s so it can be included in the renter’s credit profile. It’s the latest of several initiatives from the government-sponsored enterprise to get rental payment history included in the underwriting process.

In 2021, Freddie Mac announced a new program to help renters build up their credit profiles and help make them more creditworthy. The initiative provides a means for owners or managers of multifamily properties to report on-time rental payments to the three major credit bureaus.

The move was aimed at helping a portion of the more than 45 million U.S. adults who have no credit score.



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