National Consumer Reporting ASSOCIATION

Introducing the QMCR – "Qualified" Mortgage Credit Report

Problem: One consequence of the 2008 financial crisis is that mortgage lending standards are now very tight, allowing only those borrowers with very good credit access to mortgage loans. With the QM and QRM proposals, this tight credit market is not likely to improve as many lenders have stated that they would not lend outside the "Qualified" standards due to the added risk. With claims of redlining, concerns about fair access to mortgage loans and disparate impact all complicated by the errors in the credit reporting data that affect consumers on the border of credit worthiness the hardest, there needs to be a system that provides these consumers an opportunity to have their true credit risks analyzed. This currently is not done in the system that, with the exception of the higher credit score requirement, is unchanged from the one that led to the mortgage crisis. A solution is needed to thoroughly evaluate those consumers on the fringe of the QM and QRM, documenting all their credit accounts and verifying questionable data that is now being used, regardless of "red flag" warnings of potential errors and omissions. This must also be done with lending safely in mind, to avoid repeating the pre-crisis lending errors.

Solution: The solution comes from the mortgage credit reporting agencies: the participant in the mortgage industry best suited to document consumer credit data on a conflict free basis with regard to the outcome of the loan. Their only concern is for completeness and accuracy of the report so as to limit the legal liability they hold to both the consumer and the lender whom hired them. The solution is a new report: The "QMCR – the Qualified Mortgage Credit Report" and "QMCR Score" which would provide a deeper review on the consumer's credit when a formula to detect credit concerns is triggered. This new report would include verifying disputed data and the inclusion of non-traditional or alternative data not currently reported to the National Credit Reporting Agencies (NCRAs). This report should be required to be built from the current tri merged mortgage credit report, and triggered when the consumer's specific credit history contains the following criteria:

- ***A middle credit score less than the lowest allowed for the lenders best rate, and***
- ***A greater than 25 point spread between the high and low scores***

In the current mortgage underwriting process, the middle credit score is the most important as it is used to price the loan by the lender. If that score is more than the score level pre-determined by the lender at which consumers receive the best interest rate, (using 720 as the score required for the best rate in this example) the lender proceeds with the current credit reporting process without change. If the middle score is less than the 720 example, and the other two credit scores not used in the pricing of the loan (the high and low of the three scores) have less than a 25 point difference between them, the lender again proceeds as before using a risk based pricing model that is currently a standard practice in mortgage lending. However when those high and low scores have more than a 25 point spread, the lender would be ***required*** to add the proposed QMCR to the current process.

This change only occurs when the consumer's specific credit situation warrants an additional credit review, which can be layered in as needed by the specific risks. After perpetration of the QMCR and the QMCR Score (about 3 business days) the loan could be sent back through the automated underwriting system for consideration of inclusion as a "qualified" loan for approval. It is imperative for both the safety of the lending institution and the mortgage applicant that this application is not underwritten with questionable credit data or potential missing accounts that could skew debt to income ratios.

Many features of the QMCR would be similar to the time tested and proven Residential Mortgage Credit Report (RMCR) requirements that were drafted, and agreed to by Fannie, Freddie, HUD, FHA, VA and as the only acceptable mortgage credit documentation prior to automated underwriting. The RMCR standards are still claimed to produce the best quality credit reports, but require manual underwriting by the GSEs. The new QMCR and Score would allow for automated underwriting and include a summary of the derogatory data on the consumer report for an added value of both accuracy and financial literacy. The summary would also include a statement about the disclosure of all creditors, even those not being reported to the NCRA's and the legal responsibility and benefit to report them to the mortgage consumer reporting agency to eliminate the conflict of interest of the mortgage originator filtering debt to income altering disclosures.

The QMCR and QMCR Score is a hybrid approach that incorporates the evaluation of more than 40 years of mortgage credit reporting processes. It includes the best practices of the automated underwriting technology systems that revolutionized the mortgage process in the mid-1990's, as well as the safeguards that have protected the lending industry and consumers for decades.

Let us not ignore history and doom ourselves to its repetition. Let us learn from the mistakes that led to the recent housing finance crisis and, in so doing, implement a common sense system designed to layer added verifications for increased data and debt to income accuracy in cases when a consumer's credit shows signs of increased risks to both themselves and the lender.

What can you do to help? Contact Terry Clemans, Executive Director, NCRA, for more information about how you can express your support for adding the QMCR Score to the mortgage underwriting process with the appropriate oversight agencies.