

The new “Gotcha!” for Credit Reports

So, you’ve exercised your rights as dictated by the FCRA and disputed some inaccurate information on your credit report. Statistics show that 80% of credit reports contain inaccurate information. Disputing these inaccuracies is your legal right and is encouraged by the Federal Trade Commission and consumer groups. But now you’ve applied for a mortgage and your lender is telling you there is a “problem” because you have done this and it could cost you your loan. The dispute was valid, so why should this be an issue?

Fannie Mae’s underwriting software flags tradelines listed with a dispute comment. The application is sent back to the lender to determine the validity of the dispute. Unless the dispute remark can be removed at the bureau level the loan would have to go through a manual underwriting process.

The problem is that getting these remarks removed can be a difficult process. If they are not removed the loan will have to be manually underwritten, which is a lengthy labor intensive process. In some cases it causes the loss of the loan.

According to Fannie Mae spokesperson, Amy Bonitatus, “Fannie Mae’s eligibility requirements do not prohibit the delivery of a loan to Fannie Mae where the borrower has dispute information on their credit report. In order to protect borrowers from adverse impacts resulting from inaccurate reporting data, our policy requires the lender to determine and document whether or not the dispute information is accurate and underwrite the borrower’s credit accordingly.”

As for Freddie Mac, according to their spokesperson, Brad German, their policy towards disputed accounts is similar to Fannie Mae’s. “The presence of dispute tradelines will affect the system’s determination of a borrower’s credit reputation and its decision to accept the application or refer it to the lender for manual underwriting.” This means it may be possible for an application to make it through Freddie Mac’s automated approval system and not be returned due to disputes. However, the criteria for determining this is “proprietary” so there is no way to predict what will or will not be returned.

Why all the fuss about disputed accounts? For years many credit repair agencies have been trying to trick the system by disputing items on a credit report for the borrower. This would tag the dispute remark causing the item to be excluded from the scoring model. This is not always the case anymore. According to Fair Isaac, if a disputed account is derogatory, it will “most likely” still be factored into the scoring model, depending on the nature of the dispute. In the case of accounts in good standing, some information may be excluded from the scoring model. Because their systems are also proprietary they won’t say which items



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will or won't be excluded or what would constitute a dispute that would eliminate it from the scoring model. Because a negative account can seriously impact a credit score, having it removed could falsely boost a borrower's credit score. Fannie and Freddie have implemented this process as a way of protecting themselves from fraud.

What's the answer? Again, getting the disputed remark removed is the best option. While not easy, it can be done. Currently, Experian will accept a letter from the borrower stating the account is no longer in dispute. However, Equifax and TransUnion require a letter directly from the creditor clarifying the dispute or agreeing to its removal. Loan Originators can use the Rapid Rescore service available through Advantage Credit Inc. to expedite this otherwise lengthy and frustrating process.

Fannie said recently they are reviewing their policies around this issue, but this could take a very long time. In the meantime, if a borrower has a legitimate dispute regarding an item on their credit report, it might be wise to suggest they wait until after the loan process to dispute the account. Otherwise it might severely delay or completely halt their refinance or purchase.

In a perfect world, maybe someday, Fannie, Freddie and Fair Isaac will all have a meeting of the minds and create the perfect system so the consumer won't be caught in the middle. Yes, in a perfect world.....

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