

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT**24 CFR Part 203**

[Docket No. FR-4835-I-01]

RIN 2502-AI00

FHA TOTAL Mortgage Scorecard

AGENCY: Office of the Assistant Secretary for Housing-Federal Housing Commissioner, HUD.

ACTION: Interim rule.

SUMMARY: This interim rule would codify the procedures that mortgagees and automated underwriting system vendors must observe if they opt to use the "Technology Open To Approved Lenders" (TOTAL) mortgage scorecard offered by the Federal Housing Administration (FHA). This rule follows a December 6, 2000, **Federal Register** notice, which announced the Department's intention to deploy the TOTAL mortgage scorecard. The interim rule also clarifies that the underwriting requirements to which FHA mortgagees must adhere are not altered by this rule. This rule only provides the requirements and procedures for use of the TOTAL mortgage scorecard.

EFFECTIVE DATE: December 22, 2003.

Comment Due Date: January 20, 2004.

ADDRESSES: Interested persons are invited to submit comments regarding this rule to the Regulations Division, Office of General Counsel, Room 10276, Department of Housing and Urban Development, 451 Seventh Street, SW., Washington, DC 20410-0500. Communications should refer to the above docket number and title. Facsimile (FAX) comments are not acceptable. A copy of each communication submitted will be available for public inspection and copying between 7:30 a.m. and 5:30 p.m. weekdays at the above address.

FOR FURTHER INFORMATION CONTACT: Vance T. Morris, Director, Office of Single Family Program Development, Room 9278, Department of Housing and Urban Development, 451 Seventh Street, SW., Washington, DC 20410-8000; telephone (202) 708-2121. (This is not a toll-free number.) Hearing- or speech-impaired persons may access this number by calling the toll-free Federal Information Relay Service number at 1-800-877-8339.

SUPPLEMENTARY INFORMATION:**I. Background**

On December 6, 2000, the Department published a notice in the **Federal Register** (65 FR 76273), announcing its intention to deploy the FHA TOTAL

(originally an acronym for "Technology Open To All Lenders," but now more accurately standing for "Technology Open To Approved Lenders") Mortgage Scorecard for mortgage industry use. The TOTAL Mortgage Scorecard (or Scorecard), developed by HUD, assesses the credit worthiness of FHA mortgagors by evaluating certain mortgage application and mortgagor credit information that has been statistically proven to accurately predict the likelihood of mortgagor default. The TOTAL Mortgage Scorecard is not an automated underwriting system (AUS); rather, it is a mathematical equation intended for use within an automated underwriting system.

The December 6, 2000, notice (Notice) described the Department's purpose and objectives in deploying the TOTAL Mortgage Scorecard. The objectives for the use of the TOTAL Mortgage Scorecard, which were first stated in the Notice, are (1) to provide an improved credit evaluation system for FHA loans that has been statistically proven to accurately predict the likelihood of mortgagor default while providing a uniform system protective of borrowers; (2) to expand access to mortgage credit for low- and moderate-income mortgagors and discourage unlawful discrimination against mortgagors protected by the Fair Housing Act and the Equal Credit Opportunity Act; (3) to facilitate access to, and reduce the cost and time associated with, originating HUD/FHA-insured mortgages; and (4) to encourage a standardized, industry-wide capability for communication and exchange of information among members of the mortgage lending community.

The Notice also advised that approval would be rescinded for the two individual privately developed mortgage scorecards used in the processing of FHA mortgage loans, and that after deployment of the TOTAL Mortgage Scorecard, HUD would require use of the Scorecard in any AUS. The Notice also indicated that users of the TOTAL Mortgage Scorecard would receive documentation relief and credit policy waivers provided by HUD. Further, the Notice advised that HUD also had developed a Use Agreement that established the requirements and responsibilities for implementation and use of the TOTAL Mortgage Scorecard by qualified mortgagees and others that purchase, sell, underwrite, or document HUD mortgage loans for mortgagees under HUD's Direct Endorsement program. Two organizations have been working with HUD to test the use of the TOTAL Mortgage Scorecard. While HUD, through individual approvals,

could authorize other organizations to use the TOTAL Mortgage Scorecard, HUD has decided that a more efficient course of action is to promulgate regulations for the use of the Scorecard consistent with the purpose and objectives announced in the Notice instead of executing individual approvals that establish the requirements and responsibilities for use of the Scorecard.

Current regulations at 24 CFR 203.255 describe the documentation requirements mortgagees must follow when underwriting mortgage loans to be insured by FHA, and state that for mortgage loans rated as acceptable risks by an approved AUS, a Direct Endorsement underwriter need not certify that he/she has personally reviewed the credit application. The regulations do not, however, describe the rules and procedures that mortgagees and automated underwriting system vendors must observe if they opt to use the TOTAL Mortgage Scorecard, and to receive the inherent benefits accompanying its use, including documentation relief and credit policy revisions.

II. This Interim Rule

This interim rule would revise HUD's regulation at 24 CFR 203.251 to add a definition for "TOTAL," and § 203.255(b)(5) would be revised to remove the reference to "an automated underwriting system approved by the Secretary or Commissioner" and substitute "TOTAL Mortgage Scorecard." The requirements governing the use of the TOTAL Mortgage Scorecard would also be added to § 203.255(b)(5). Any AUS vendor that "calls" the TOTAL Mortgage Scorecard, and any FHA-approved mortgagee that obtains a risk assessment from the Scorecard, must abide by the requirements set forth in this regulation. Only AUSs developed, operated, owned, or used by FHA-approved Direct Endorsement mortgages, Fannie Mae, or Freddie Mac will be able to access the scorecard, and only FHA-approved mortgagees will be able to obtain risk assessments using the TOTAL Mortgage Scorecard. The rule affirms that Direct Endorsement mortgagees remain solely responsible for the underwriting decision. Implementation of this regulation will rescind Mortgagee Letters 96-34, 98-14, and 99-26, which address FHA's review of individual automated underwriting procedures. This rule does not alter the underwriting requirements to which FHA mortgagees must currently adhere. This rule only addresses the use of the TOTAL Mortgage Scorecard and the