



OFFICE OF HOUSING

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT  
WASHINGTON, DC 20410-8000

## FAQs: ML 12-03, Miscellaneous Underwriting Issues

### *Income Documentation for Self-Employed Borrowers—*

**Question:** If a loan application is dated May 1<sup>st</sup>, and the last tax filing was for the previous calendar year, do we need a year-to-date Profit and Loss statement for a self-employed borrower?

**Answer:** Yes, no more than one calendar quarter may elapse without income documentation.

### *Handling of Disputed Accounts, Public Records –*

**Question:** If a non-purchasing spouse has outstanding collections and/or disputed accounts, would the unpaid balances need to be considered in the cumulative total?

**Answer:** If the property being financed is in a community property state, disputed accounts and collections with outstanding balances of the non-purchasing spouse would have to be considered in the \$1,000 cumulative limit. The non-purchasing spouse's debt would not be included if the borrower can provide documentation such as a copy of a marriage license to show the debt was incurred prior to the marriage, or a copy of the state's law showing that community property did not apply to debts incurred prior to the marriage and an attorney's opinion letter stating that the borrower was not responsible.

**Question:** This is a case where a borrower has two disputed accounts, both aged for two years totaling \$1,050 (one for \$900 and a second account for \$150). Payment arrangements have been made for the disputed account with an original balance of \$150. The borrower made three payments of \$25 each in accordance with a payment arrangement, leaving an unpaid balance of \$75. Does the borrower need to pay in full the second disputed account of \$900?

**Answer:** No, the outstanding cumulative balance is less than \$1,000 (\$900 + \$75).

**Question:** Are the balances of unpaid charge-off accounts included in the \$1,000 limit?

**Answer:** No, unpaid charge-off accounts are not included in the \$1,000 limit.

**Question:** If there is a dispute on an authorized user account, is that exempt from the cumulative balance?

**Answer:** No. A disputed account is only exempt from the cumulative balance if documentation is provided showing the dispute is a result of identity theft, credit card theft, or unauthorized use.

**Question:** Are medical collections included?

**Answer:** Yes

**FAQs: ML 12-03, Miscellaneous Underwriting Issues (continued)**

The Q & A below provides clarification on disputed and collections accounts in FHA Mortgagee Letter 2012-03. If you have any questions on this issue, please contact Theresa Herrity at:

[Theresa.M.Herrity@hud.gov](mailto:Theresa.M.Herrity@hud.gov)

**Question: Must all collections accounts and disputed accounts be resolved (e.g. entered into payment arrangements with minimum three months verified payments) or paid off in full at the time of, or prior to closing?**

**Answer:** Mortgagee Letter 2012-03 provides examples of acceptable documentation to support a resolution of collections accounts and disputed accounts or the payoff of accounts. The examples provided are not finite. The borrower's written explanation as described in section 4155.1 4.C.1.c of the handbook, regarding disputes with creditors or collections accounts resulting from life events such as medical, death, divorce, loss of employment, etc., is another example in support of a resolution to an aggregate amount of disputed or collections accounts over \$1,000. The borrower may provide a written explanation and documentation as it applies to all types of disputed and collections accounts if it makes sense, and is consistent with other credit information in the file.

***Identity of Interest Transaction –***

**Question: Does the definition of family members for Identity of Interest transactions apply to other sections of the handbook?**

**Answer:** Yes, the definition of family members will be updated in HUD 4155.1 9.1.f, and will apply to all sections of the handbook.