

The Credit Score is a number summarizing an individual's credit profile that indicates the likelihood that a Borrower will repay future obligations. Credit Scores are used to determine the Underwriting Score and Indicator Scores for Loan Product AdvisorSM and Non- Loan Product Advisor Mortgages. The most common type of Credit Score is developed by FICO, a national credit scoring company, and is called a FICO[®] score. The guidelines for using Credit Scores in underwriting are found in Chapter 5203, Credit Reports and Credit Scores, of the *Freddie Mac Single-Family Seller/Servicer Guide* (Guide).

Underwriting Scores

Definition: The **Underwriting Score** is the one Credit Score selected from all usable Credit Scores obtained for an individual borrower that quantifies the credit reputation risk for that individual borrower.

For mortgages assessed through Loan Product Advisor, the Underwriting Score for each borrower is used to derive an Indicator Score to represent the overall credit reputation risk for the transaction. The Underwriting Score is located in the Credit Report Information section of the Full Feedback Certificate.

If you are not using Loan Product Advisor, Freddie Mac requires the use of Credit Scores to underwrite Manually Underwritten Mortgages.

To identify the Underwriting Score for a Mortgage not assessed using Loan Product Advisor, you must first determine the number of usable Credit Scores, then use the middle/lower method to determine the Underwriting Score.

For a FICO score to be usable, it must be based on sufficient, accurate information. Too little information, or information that is significantly inaccurate, make the FICO score unusable for Mortgage underwriting. This is important both to ensure that the FICO score is adequately indicative of a Borrower's credit reputation and to ensure fairness for Borrowers in using Credit Scores to evaluate their overall credit reputation. Once you've determined the credit scores are usable, the Underwriting Score is determined as follows:

- If there are three usable Credit Scores, the middle score is the Underwriting Score*.
- If there are two usable Credit Scores, the lower score is the Underwriting Score.
- If there is only one usable Credit Score, that score is the Underwriting Score.

Identifying the Underwriting Score				
Example	Score 1	Score 2	Score 3	Underwriting Score
Borrower 1	680	700	720	700
Borrower 2	640	660	Not usable	640
Borrower 3	670	Not usable	Not usable	670

* If there is a duplicate score, the Underwriting Score is the duplicate score.

For Manually Underwritten Mortgages, the Seller must perform a detailed review of all aspects of the Borrower's credit history. The Seller must satisfactorily establish the Borrower's willingness and ability to repay and manage obligations as required under Topics 5100 through 5500 of the Guide.

Indicator Scores

Definition: The **Indicator Score** is the one Underwriting Score identified to represent the eligibility of the mortgage for the product offering.

Freddie Mac may require that one Credit Score be identified and delivered for a Mortgage for reasons such as eligibility or pricing. When one Credit Score is required, the Credit Score is referred to as the "Indicator Score". For Mortgages requiring an Indicator Score, refer to Guide Exhibit 25, Mortgages with Risk Class and/or Minimum Indicator Score Requirements.

If an Indicator Score is required, and no Borrower has a usable Credit Score, there can be no Indicator Score for the Mortgage and it is not eligible for sale to Freddie Mac (for exceptions, refer to Guide Section 5203.2). If no Borrower has a usable Credit Score and an Indicator Score is not required for the Mortgage to be eligible, refer to Guide Section 5203.2 for special delivery requirements.

An Indicator Score does not indicate that the Borrower's credit reputation is acceptable. Even when the Indicator Score exceeds the minimum requirement, you (or the Seller) must determine that each borrower individually, and all borrowers collectively, have an acceptable credit reputation.

For mortgages assessed through Loan Product Advisor, the Indicator Score represents the one Underwriting Score selected by Loan Product Advisor to represent the overall credit reputation risk for the transaction. The Indicator Score is located in the Credit Report Information section of the Full Feedback Certificate.

Non- Loan Product Advisor Mortgages require delivery of an Indicator Score and the Indicator Score selection method to calculate postsettlement delivery fees. Refer to Guide Exhibit 19, Postsettlement Delivery Fees, to determine delivery fees.

When a Minimum Indicator Score is required, you (or the Seller) must:

- Note the Underwriting Scores, the Indicator Score, and how they were identified, on the Form 1077, Uniform Underwriting and Transmittal Summary, or another similar document in the mortgage file.
- Retain the source documentation for the Indicator Score in the Mortgage file.
- Deliver the Indicator Score and the credit score selection method. If there's no usable Indicator Score, refer to Guide Section 5203.2

Freddie Mac's recommended method for determining the Indicator Score is the middle/lower then lowest method. To find the Indicator Score using this method, you must first determine the Underwriting Score for each borrower. Refer to the instructions for identifying the Underwriting Score described in this quick reference, or Guide Chapter 5203.2. Once you have identified the Underwriting Scores for each borrower, select the lowest Underwriting Score across all borrowers. This score is the Indicator Score for the transaction. The following table provides an example of selecting the Indicator Score from the range of usable Underwriting Scores:

Identifying an Indicator Score Using the Middle/Lower then Lowest Method		
Borrower 1 - Underwriting Score	Borrower 2 - Underwriting Score	Borrower 3 - Underwriting Score
700	640	670
The Indicator Score for the mortgage is 640		

There are two additional methods (middle/lower then average and average/average), which are explained in Guide Chapter 5203.2. Postsettlement delivery fee rates will be adjusted if a method other than the middle/lower then lowest method is used.

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