

A Guide to Reasons for Adverse Action

Numerous options exist on adverse action notices for reasons for the action taken. In providing documentation to the applicant, provide the reasons in the order of prominence to the action taken. Provide all the main reasons for the action; however, providing more than four reasons should generally be avoided.

Adverse Action Reason	Explanation
Credit application incomplete.	Should be used if reason for adverse action is incomplete application. However, alternate procedures exist to provide a separate notice of incomplete application that incorporates adverse action language should information not be provided may be a better solution.
Insufficient number of credit references provided.	Should only be used where application asks borrower to provide credit references and bank has standard for what constitutes sufficient number. Alternative reasons include “No credit file” and “Limited credit experience”, both of which are based off of credit bureau report.
Unacceptable type of credit references provided.	Should only be used where application asks borrower to provide credit references and bank standard for what constitutes acceptable and unacceptable types of credit references. Alternative reasons include “No credit file” and “Limited credit experience”, both of which are based off of credit bureau report.
Unable to verify credit references. ¹	Should only be used if attempt is made to verify credit reference provided on application through either credit report or direct contact. File must document what attempts were made to verify credit references.
Temporary or irregular employment. ¹	Use for individual who is working in such jobs as seasonal employment, or indicate that their hours and salary fluctuate significantly.
Unable to verify employment. ¹	Should only be used if attempt is made to verify employment through direct contact. File must document what attempts were made to verify employment.
Length of employment.	Should be used where applicant does not meet credit standard of 2 years stable employment (not necessarily the same job, but some degree of stability for two years must be established).
Income insufficient for amount of credit requested.	Should only be used where borrower’s current debt-to-income ratio is within bank standards, but when requested credit is added in (and any debts to be paid off are subtracted), the ratio exceeds the standards.
Excessive obligations in relation to income.	Should be used where borrower’s existing debt-to-income exceeds the bank standards even before adding in the requested credit.

Unable to verify income. ¹	Should be used only where attempts are made to verify income either through pay vouchers or through direct contact with employer. File must document what attempts were made to verify employment.
Length of residence.	Should be used where applicant does not meet credit standard of 2 years stable residence (not necessarily the same residence, but some degree of stability for two years must be established).
Temporary residence. ¹	Should only be used where it becomes known that this is not the applicant's permanent address.
Unable to verify residence. ¹	Should only be used where attempts are made to verify the applicant's residence through direct contact such as with a landlord. File must document what attempts were made to verify residence.
No credit file.	Should be used where credit bureau request results in them being unable to locate a credit file on the applicant, or the applicant has no credit history on the credit report at all.
Limited credit experience.	Should be used where applicant has a credit history, but not a sufficient number of references to satisfy bank standards. This determination can be made either through credit bureau report or through examination of credit references provided in response to request on application.
Poor credit performance with us.	Should only be used where applicant has failed to perform satisfactorily with our bank on a previous credit. File must document the previous credit and the unsatisfactory payment history.
Delinquent past or present credit obligations with others.	Should be used where credit report indicates payment history with past or present credit, other than to our bank, which does not meet bank standards.
Garnishment, attachment, foreclosure, repossession, collection action or judgment.	Should only be used where credit bureau report indicates one or more of these six public record types and such occurrences are in excess of bank standards.
Bankruptcy.	Should only be used where applicant or credit report indicates applicant has previously filed for any chapter of bankruptcy.
Value or type of collateral not sufficient.	Should only be used where applicant has offered collateral. If application is for unsecured credit, use another denial reason, or consider counter-offer to lend with adequate collateral. Where used, file should be documented as to the value of the collateral and how determined. Refer to bank loan-to-value standards for determining applicability of this reason.

Other, specify:	Exercise caution in using this reason for denial. Most credit underwriting situations can be covered by other reasons listed above. Consider contacting compliance officer before using this reason.
Lack of established earnings.	Should be used for business credit adverse action where the business has not established an earnings record sufficient to qualify for the credit requested.
Slow or past due in trade or loan payments.	Should be used for business credit adverse action, where the business has been slow or delinquent in making payments on trade lines or other business loans.

Anytime information bearing on the character, general reputation, and credit capacity of an applicant is obtained from an outside source other than a credit reporting agency and is used in whole or part in deciding to decline the credit request, that use must be disclosed on the adverse action statement. Examples of where this disclosure would be made include where applicant's employer, landlord or a creditor contacted directly provided information that reflected negatively on the credit-worthiness of the applicant.