

## Credit Analysis

Single Family Housing Guaranteed Loan Program



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## Training Objectives

- Where is the topic located?
  - 7 CFR Part 3555
  - HB-1-3555
- Learning Checks
- Resources
  - “SFHGLP Overview” training module
- **Things Change!**



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## 7 CFR Part 3555

### Subpart D: Underwriting the Applicant

- **.151: Eligibility requirements**
- .152: Calculation of income and assets



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## 7 CFR Part 3555

### 7 CFR Part 3555: 3555.151(i)

- Verifiable credit history
- Demonstrate ability and willingness to meet debt obligations
- Acceptable/Verified credit score does not = automatic approval
- Draw logical conclusion regarding commitment to successfully handle financial obligations
- GUS is a tool to assist lenders to evaluate risk



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## 7 CFR Part 3555: 3555.151(i)

(i) **Credit qualifications.** Applicants generally must have a verifiable credit history that indicates a reasonable ability and willingness to meet their debt obligations as evidenced by an acceptable credit score, a credit report from a recognized credit repository meeting the requirements of Fannie Mae, Freddie Mac, FHA or VA, and other credit qualifications satisfactory to Rural Development.

(1) Except as provided in paragraph (i)(6) of this section, the applicant's credit history must demonstrate a past willingness and ability to meet credit obligations to enable the lender to evaluate each applicant and draw a logical conclusion about the applicant's commitment and ability to handling financial obligations successfully and ability to make payments on the new mortgage obligation.

(2) A loan's acceptance by an Agency approved automated underwriting system eliminates the need for the lender to submit documentation of the credit qualification decision as loan approval requirements will be incorporated in the automated system.

(3) For manually underwritten loans, lenders must submit documentation of the credit qualification decision. Lenders will use credit scores to manually underwrite loan mortgage requests. Lenders are required to validate the credit scores utilized in the underwriting determination. **Indicators of significant derogatory credit** will require further review and documentation of that review. Indicators of significant derogatory credit include, but are not limited to:



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## 7 CFR Part 3555: 3555.151(i)

(i) A **foreclosure that has been completed in the 36 months prior to application** by the applicant.

(ii) A **bankruptcy in which debts were discharged within 36 months prior to the date of application** by the applicant. A lender may give favorable consideration to applicants who have entered into a bankruptcy debt restructuring plan who have completed 12 months of consecutive payments. The payment performance must have been satisfactory with all required payments made on time, and the Trustee or the Bankruptcy Judge must approve of the new credit.

(iii) **One rent or mortgage payment paid 30 or more days late within the last 12 months** prior to application by the applicant.

(iv) A **previous Agency loan that resulted in a loss to the Government.**



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## 7 CFR Part 3555: 3555.151(i)

(4) When evidence of significant derogatory credit is present, **lenders may consider extenuating circumstances**, including but not limited to, whether the problems were caused by factors temporary in nature, if the circumstances leading to the derogatory credit were beyond the control of the applicant, and if the loan would significantly reduce the applicant's housing expenses.

(5) In all cases, **the applicant cannot have an outstanding Federal judgment**, other than a judgment obtained in the United States Tax Court, or a delinquent non-tax Federal debt that has not been paid in full or otherwise satisfied.

(6) For applicants without an established credit history, **alternative methods may be used** to evidence an applicant's willingness to pay, such as a non-traditional mortgage credit report or multiple independent verifications of trade references.

(7) A **credit report for a non-purchasing spouse** must be obtained in order to determine the debt-to-income ratio referenced at §3555.151(h) if the applicant resides in a community property state.



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## HB-1-3555

### Guaranteed Loan Program Technical Handbook

- Provides guidance to support the regulation
- Handbook is not the rule
- 20 chapters
- **Chapter 10: Credit Analysis**




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*Chapter 10: Credit Analysis*



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**ATTACHMENT 10-A**

**CREDIT MATRIX**

Credit guidance: 3555.151(i)

**CREDIT ALERT VERIFICATION REPORTING SYSTEM (CAIVRS)**

CAIVRS is a Federal government wide repository to file and report delinquent and/or defaulted claims on individuals that were paid on their behalf.

CAIVRS may return the following results:

- A: Approved by CAIVRS (no issues exist)
- B: Multiple cases from one or more Federal agencies
- C: Claim filed
- D: Default on loan
- F: Foreclosure of loan
- J: Judgment filed

An "A" response is the only acceptable result for an applicant to be eligible for a guaranteed loan.

**CAIVRS in GUS:**

- GUS will automatically retrieve the CAIVRS response for each applicant when the Borrower application page is saved.
- If the CAIVRS system is unavailable at this time, the user may manually retrieve the CAIVRS on the Additional Data GUS application page.
- If GUS retrieves a CAIVRS response that is not an "A", the GUS response cannot be revised/overridden.


The lender must obtain evidence of an "A" CAIVRS response outside of GUS. This documentation must be uploaded as part of a complete loan application submission of the GUS application to USDA. USDA will retrieve and confirm an "A" CAIVRS response when the loan file is processed in the Agency's internal Guaranteed Loan System (GLS).

- Lenders must read all requirements of the final GUS Underwriting Findings Report to ensure applicable documentation is submitted to meet loan eligibility.

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**CHAPTER 10: CREDIT ANALYSIS**

7 CFR 3555.151

**10.1 INTRODUCTION**

This chapter discusses the Agency's criteria to assess and document the credit history of a loan file. Credit requirements may vary for loans originated with the assistance of the Guaranteed Underwriting System (GUS) as compared to those manually underwritten. Lenders may impose additional criteria/overlays at their discretion.

**10.2 CREDIT ELIGIBILITY REQUIREMENTS**

Lenders must review the credit history of an applicant, as applicable, to determine an ability and willingness to meet their debt obligations.

The following adverse credit items will render an applicant **ineligible** for a guaranteed loan:

- Presently delinquent non-tax Federal debt;
- Presently delinquent court ordered child support unless the applicant has an approved repayment agreement in place with three timely payments made prior to loan closing; the arrearage is paid in full prior to loan closing, or a release of liability is documented; and
- CAIVRS Claim: An applicant that will be a party to the loan does not have a clear "A" Credit Alert Verification Reporting System (CAIVRS) response.

Refer to Attachment 10-A "Credit Matrix" for additional information.

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## Chapter 10: Credit Analysis



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**CREDIT SCORES AND VALIDATION**

A credit score is a statistical number that evaluates an applicant's creditworthiness based on their credit history. The credit score considers payment history, amounts owed, percentage of credit used, length of credit history, types of credit, and newly acquired credit.

**GUS Loans:**

GUS will determine the acceptable credit score to be used for the underwriting recommendation for Accept, Refer, and Refer with Caution recommendations.

**Manually Underwritten Loans without GUS:**

Lenders must select the middle of three scores, the lower of two (a repeating score may be used), or the single reported score. A credit report with no score must refer to non-traditional tradeline requirements.

**Validate Credit Score - GUS Accept files:**

No credit score validation required.

**Validate Credit Score - GUS Refer, Refer with Caution, and Manually Underwritten files:**

One applicant whose income and/or assets is used to originate the loan must have a validated credit score. This applicant must have two tradelines on the credit report that have been/were/are open for 12 months based on the date the account was opened as stated on the credit report. A validated score does not indicate the applicant has an acceptable credit history. A validated score confirms that one applicant has an eligible minimum credit history.

The following tradelines are eligible to validate the credit score and may be open, closed, and/or paid in full: loans (secured/unsecured), revolving accounts, installment loans, credit cards, collections, charge-off accounts, etc.

Lenders may use an authorized user account to validate the credit score when one of the following is met:

- The tradeline is owned by another applicant on the mortgage loan application;
- The owner of the tradeline is the spouse of the applicant; or
- The applicant can provide evidence that they have made payments on the account for the previous 12 months prior to loan application.

Public records (bankruptcy, foreclosure, tax liens, judgments, etc.), disputed, and self-reported accounts are ineligible tradelines for credit validation.

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**CREDIT SCORES AND VALIDATION (continued)****Common Scenarios:**

- A. Only one eligible tradeline on the credit report? Non-traditional tradelines may be verified to meet the cumulative tradeline number requirement.
- B. No eligible tradelines on the credit report? One applicant whose income or assets are used to underwrite the loan must have an eligible non-traditional credit history.

Refer to the Nontraditional credit section of this matrix for guidance.

GUS Refer, Refer with Caution, and manually underwritten files are not eligible for debt ratio exceptions if:

1. There is not one applicant with a validated score using traditional tradelines on the credit report, or
2. The file requires non-traditional credit tradelines.

**CREDIT INQUIRES/RECENT DEBTS/UNDISCLOSED DEBTS**

A credit inquiry is a request by an institution for credit report information. A hard inquiry is requested when an applicant is seeking credit and completes a credit application. Hard inquiries are typically listed on the credit report and factored into the credit score. A soft inquiry is not included on the credit report and does not result in a new credit/debt. Soft inquiries may include a free annual credit report, companies developing marketing lists, prequalification offers, etc.

Inquiries for credit made by the applicant(s) 90 days before the date of the credit report must be investigated to determine if new credit accounts were opened. Lenders must retain documentation in their permanent loan file to support newly identified debts.

**GUS Accept files:**

New installment or revolving accounts that are not reflected on the credit report in GUS must be manually entered on the Asset and Liabilities GUS application page. No downgrade is required.

**GUS Refer, Refer with Caution, and Manually underwritten files:**

New installment or revolving accounts that are not reflected on the credit report in GUS must be manually entered on the Asset and Liabilities GUS application page or loan application for non-GUS loans.

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**CREDIT EXCEPTIONS**

Credit repayment issues do not always reflect an inability or unwillingness to meet financial obligations. When evidence of significant derogatory credit is present, lenders may consider extenuating circumstances and determine if the applicant is creditworthy. The lender's underwriter must use prudent underwriting judgment to evaluate loan requests that include significant derogatory credit. Refer to guidance in this Chapter to determine if a credit exception is required.

**GUS Accept files - No credit exception required:**

GUS has determined the credit is an acceptable risk. Confirm the Declarations on the loan application are accurate. No credit exception is required.

**GUS Refer, Refer with Caution, manually underwritten files:**

The credit exception must include the **lender's documented rationale** on the underwriting transmittal summary or similar underwriting form. The rationale **must meet the following**:

- The circumstances that led to the derogatory credit were temporary in nature, beyond the applicant's control, and due to the current employment/financial/health of the household are unlikely to recur. Examples include but are not limited to: temporary loss of job/unemployment, delay or reduction in benefits, illness, divorce, dispute over payment for defective goods or services, etc.;
- The approved lender must explain their rationale for issuing the credit exception (identified compensating factors, etc.) and why the applicant(s) remains an acceptable credit risk; and
- The applicant must provide documentation to the approved lender for their permanent loan file that supports the extenuating circumstances. The documentation is not required to be submitted to USDA.

**USDA does not approve the lender's credit exception. Lenders are responsible for their credit decision.** Previous USDA losses, delinquent non-tax Federal debts, delinquent child support, and ineligible CAIVRS results are not eligible for lender approved credit exceptions.

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**NON-TRADITIONAL CREDIT**

Applicants that do not have the required traditional credit history, a validated credit score, or no credit score may document their willingness to pay debt obligations through alternate sources. The use of a non-traditional credit history is not a reason to deny a loan.

**Applicants with a 12-month Verification of Rent (VOR):** Two tradelines are required: The VOR, plus one additional tradeline. This tradeline must be an eligible traditional tradeline from the credit report with a 12-month history or an eligible non-traditional tradeline.

**Applicants with no rent history:** Three tradelines are required. Tradelines may be a combination of traditional tradelines from the credit report with 12-month history or eligible non-traditional tradelines.

Non-traditional credit may be documented as 1. A Non-Traditional Mortgage Credit Report (NTMCR), 2. Self-Reported tradelines on a traditional credit report, or 3. Evidence from third party verifications, canceled checks, money order receipts, electronic payments, payment histories from the creditor/company, bank statements that clearly identify debit payments for the service/product, etc.

**An eligible non-traditional tradeline must have a 12-month history and cannot have been closed more than 6 months prior to loan application.** Examples of acceptable non-traditional credit sources include but are not limited to:

- Rent or housing payments
- Utility services: gas, electric, water, land-line telephone service, or cable TV (services should not be included in rent payments)
- Insurance payments: automobile, life, household, renter's insurance, medical supplements. Premiums paid through payroll deduction for employee offered coverage of plans are ineligible. Premiums paid quarterly or annually are acceptable when the payment(s) provide 12 months of coverage.
- Childcare: licensed childcare providers may provide documentation to support the date of enrollment, dates of fees paid, etc. Bank statements to support cash withdrawals or handwritten receipts are not acceptable.
- School tuition
- Payments to local stores (car dealerships, department/furniture/appliance stores, specialty stores)
- Payments for uninsured portions of medical bills
- Internet or cell phone services
- Automobile leases
- Personal loans with repayment terms in writing, supported with canceled checks, money order receipts, or electronic payment receipts
- 12 month documented history of savings that demonstrate regular deposits which equal three months of proposed mortgage (PITI) payments that will be retained as cash reserves post-closing
- Any other reference that gives insight into the applicant's willingness to make periodic payments on a regular basis for recurring credit obligations.

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**NON-TRADITIONAL CREDIT (continued)**

Child support, alimony, garnishments, court ordered debts, monthly subscription services, gym memberships, etc. are **not eligible non-traditional credit tradelines**.

Applicant's that utilize nontraditional credit to qualify for a guaranteed loan are not eligible for debt ratio waivers.

**RECENT/UNDISCLOSED DEBTS/INCREASED BALANCE OF EXISTING DEBTS IDENTIFIED AFTER A CONDITIONAL COMMITMENT IS ISSUED**

Lenders may discover new debt(s)/increased payments of existing debts/etc. after USDA issues a Conditional Commitment (Form 3555-18/18E) but prior to loan closing. These debts/payment amounts were not part of the loan application submitted to USDA. Examples of these debts include but are not limited to: installment debts, revolving credit lines, real estate taxes, final homeowner's insurance premiums, etc.

**Cumulative debt amount of \$50 or less:**

When the additional monthly amount(s) of the new/increased debt(s) does not exceed \$50, the lender may retain the issued Conditional Commitment. The lender must retain all documentation to support the new/increased debt(s) and payment(s) in the permanent loan file. No further action is required.

**Cumulative debt amount \$51 or more:**

Lenders must request the GUS loan to be released by USDA. Lenders must enter the new/increased debt(s) and payment amount(s). The lender must retain all documentation to support the data entries. A new preliminary underwriting submission must be completed to confirm the GUS underwriting recommendation. Lenders must upload documentation as applicable and complete a new final underwriting submission to USDA. USDA will issue a new Conditional Commitment. Lenders cannot not close loans without a valid Conditional Commitment.

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**CREDIT ACCOUNTS AND ADVERSE CREDIT****AUTHORIZED USER ACCOUNTS (AU)**

An authorized user is a person who has permission to use another person's credit card/line of credit but is not legally responsible for payment of the debt.

Lenders are not required to include monthly payments for an AU account in an applicant's debt ratio. A closed AU account requires no consideration. An AU account that is classified as "terminated" is considered a closed tradeline.

Lenders may continue to include the monthly debt at their discretion if they determine the applicant is making the payment.

AU accounts and credit score validation for GUS Refer, Refer with Caution, and manually underwritten loans is addressed in the Credit Scores and Validation section.

**CHAPTER 7 BANKRUPTCY (BK)**

Chapter 7 of Title 11 of the U.S. bankruptcy code controls the process of asset liquidation. A trustee is appointed to liquidate nonexempt assets to pay creditors. After the proceeds are exhausted, the remaining debt is discharged.

A Chapter 7 BK discharged or dismissed more than 36 months at the time of loan application is **not** considered adverse credit.

**GUS Accept files:**

GUS may render an Accept underwriting recommendation for loan files that have been discharged from Chapter 7 BK less than 36 months. **No credit exception is required.**

**GUS Refer, Refer with Caution, and manually underwritten files:**

The approved lender may determine the applicant(s) is creditworthy when their Chapter 7 BK has been discharged **less than 36 months**. A **credit exception must be documented and submitted** with the loan file. Refer to the Credit Exception section for guidance.

**Chapter 7 BK that includes a mortgage:**

If the Chapter 7 BK absolved a mortgage debt, the applicant is not legally liable to repay unless the debt was reaffirmed. Foreclosure action post BK discharge is against the property, not the applicant, to allow the lender to obtain title. However, until the property is fully titled to the lender, the applicant remains responsible for real estate taxes, home insurance premiums, HOA fees, special assessments, and similar debts. **Include applicable items in the debt ratio** unless evidence confirms the applicant is no longer in ownership. Lenders must retain documentation in their permanent loan file.

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**CHAPTER 12 OR 13 BANKRUPTCY (BK)**

Chapter 12 and 13 U.S. bankruptcy proceedings allow the debtor to reorganize their finances and debt payments under the supervision and approval of the court. An impartial trustee consolidates the debt and distributes money to each creditor.

**Plan in Progress - GUS Accept files:**

Confirm all payments for the Chapter 12 or 13 BK are included on the Asset and Liabilities application page. GUS may render an Accept underwriting recommendation. No downgrade is required due to the manual entry of the monthly BK payment. No credit exception is required.

**Plan in Progress - GUS Refer, Refer with Caution, and manually underwritten files:**

An applicant with a Chapter 12 or 13 BK in progress must meet the following:

- Lender must document 12 months of debt restructure plan has elapsed;
- All required payments have been made on time; and
- The applicant has written permission from the bankruptcy court/trustee to enter into a mortgage transaction. If the bankruptcy court/trustee does not review or issue permissions, the creditor may determine if the applicant is an acceptable credit risk.

Confirm all payment amounts for the Chapter 12 or 13 BK are included on the Asset and Liabilities application page in GUS or on the loan application. No credit exception is required.

**Completed Plan - GUS Accept files:**

No credit exception is required.

**Completed Plan - GUS Refer, Refer with Caution, and manually underwritten file:**

Plans completed 12 months prior to loan application require no further documentation. No credit exception is required.

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**CHARGE-OFFS**

A charge-off is a debt that was determined unlikely to be collected by the creditor due to substantial delinquency. Creditors may sell the debt to a collection company or pursue a judgment against the borrower if the statute of limitations has not expired to collect the debt. This adverse credit is reflected in the credit score.

The approved lender's underwriter must review all charge-off accounts and determine if the applicant(s) is an acceptable credit risk, regardless of GUS underwriting recommendation. USDA does not require charge-off accounts to be paid.

If the applicant has a repayment plan with the creditor for a charged off debt, include the payment in the Asset and Liabilities GUS application page or on the loan application.

**GUS Accept files:**

No credit exception is required.

**GUS Refer, Refer with Caution, and manually underwritten files:**

No credit exception is required.

**COLLECTIONS**

A collection is a debt that has been assigned/sold to a third-party debt collection agency due to negligent payment of the borrower. This adverse credit is reflected in the credit score.

The approved lender's underwriter must review all collection accounts and determine if the applicant(s) is an acceptable credit risk, regardless of GUS underwriting recommendation. USDA does not require medical collection accounts to be paid.

If the cumulative total of all non-medical collections exceeds \$2,000, the following options will apply:

1. Require payment in full of these accounts prior to loan closing;
2. Use an existing repayment agreement or require payment arrangements be made with documentation from the creditor and include the monthly payment; or
3. Include 5 percent of the outstanding balance as the monthly liability amount, no further documentation required.

All open collections must be listed on the Asset and Liabilities GUS application page and loan application.

**GUS Data Entry:**

- Collections that will be paid by loan closing should select the "Pay by Close" checkbox.
- If the collection is not required to be paid in full, the lender should select the "Omit" checkbox. Lenders must complete the "Notes" section to state why the debt will be omitted from ratio consideration.
- If a repayment agreement has a specified monthly payment, include that amount. Do not enter "\$1.00" in the monthly payment data field unless this is a documented repayment amount.

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Page 10 of 16**COLLECTIONS (continued)****GUS Accept files:**

No credit exception is required.

**GUS Refer, Refer with Caution, and manually underwritten files:**

No credit exception is required.

**CONSUMER CREDIT COUNSELING - DEBT MANAGEMENT PLANS**

Credit counseling provides guidance and support to consumers which may include assistance to negotiate with creditors on behalf of the borrower to reduce interest rates, late fees, and agree upon a repayment plan. The credit score will reflect the degradation of credit due to participation in this plan. Credit accounts that are included in the repayment plan may continue to report as delinquent or as late pays. This is typical and will not be considered as recent adverse credit. Lenders must retain documentation to support the accounts included in the debt management plan and the applicable monthly payment. Lenders must **include the monthly payment amount** due for the counseling plan in the monthly liabilities.

**The following must be documented and retained in the lender's permanent loan file:**

- One year of the payment period of the debt management plan has elapsed;
- All payments have been made on time; and
- Written permission from the counseling agency to recommend the applicant as a candidate for a new mortgage loan debt.

**GUS Accept files:**

No credit exception is required.

**GUS Refer, Refer with Caution, and manually underwritten files:**

No credit exception is required.

**DELINQUENT COURT ORDERED CHILD SUPPORT**

An applicant that is delinquent on court ordered child support is **ineligible** for a guaranteed loan unless the applicant has an approved repayment agreement in place with three timely payments made prior to loan closing, the arrearage is paid in full prior to loan closing, or a release of liability is documented.

**DELINQUENT FEDERAL NON-TAX DEBT**

A non-tax Federal debt is a debt owed to the U.S. Federal Government other than Federal income taxes. Federal debts are typically discovered when the lender reviews the Credit Alert Verification Reporting System (CAIVRS) result, credit report, public records, or equivalent.

An applicant with a delinquent Federal non-tax debt is **ineligible** until the debt is paid in full or a release of liability is documented.

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Federal taxes are due each year on the date determined by the Internal Revenue Service (IRS). Tax payers who owe taxes and do not pay in full by the filing date are determined delinquent by the IRS.

**Repayment Plan:**

An applicant with delinquent Federal tax debt is ineligible unless they have a repayment plan approved by the IRS. **A minimum of three timely payments must have been made.** Timely is defined as payments that coincide with the approved IRS repayment agreement. The applicant may not prepay a lump sum at one time to equal three monthly payments to meet this requirement. The lender must retain evidence of the repayment agreement and payment history in their permanent file. No credit exception is required.

**Approved Extension:**

An IRS approved extension to file a tax return does not grant the applicant additional time to pay their taxes due. **Applicants must pay their estimated income tax due by the IRS filing date or they are determined delinquent by the IRS.** An applicant that has owed taxes on previous filed return(s) exhibits a pattern of taxes due, therefore an estimated tax payment must be made to the IRS by the specified deadline. The applicant may file their return at a later date and remain eligible for a guaranteed loan.

An applicant that has received tax refunds for previous filed return(s) may remain eligible with no estimated tax payment due to the IRS because they would not be determined delinquent. The applicant will remain eligible for a guaranteed loan.

**Failure to File:**

Applicant's that are required to file taxes but have failed to do so for the current or previous years by required IRS due dates without approved extensions and/or required tax payments as determined by the IRS are ineligible.

**DISPUTED ACCOUNTS: NON-DEROGATORY**

A disputed account occurs when the applicant questions the validity of a transaction registered to the account. When a dispute is submitted to a creditor, a review is completed to determine if the debt continues to be due from the applicant. Most disputes are reviewed and finalized within 90 days.

**GUS Accept files:**

A GUS Accept recommendation may be retained if the following are met:

- The disputed tradeline has a zero balance;
- The disputed tradeline states "paid in full" or "resolved" on the credit report;
- The disputed tradelines are 24 months or greater;
- The disputed tradeline is current and paid as agreed;
- The payment stated on the credit report is included in the monthly debts;
- A documented payment from the creditor is included in the monthly debts; or
- Five percent of the stated account balance on the credit report is included in the monthly debts.

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**DISPUTED ACCOUNTS: NON-DEROGATORY (Continued)****GUS Refer, Refer with Caution, and manually underwritten files:**

The applicant must provide the lender with applicable documentation to support the reason and basis of their dispute with the creditor. Lender's must determine the impact of the disputed account on the repayment of the proposed mortgage debt. Each account must include the payment stated on the credit report, five percent of the balance of the account, or a lesser amount documented from the creditor. No credit exception is required.

**DISPUTED ACCOUNTS: DEROGATORY**

Disputed derogatory accounts that must be considered are non-medical collections and accounts with late payments in the last 24 months.

For all loan types, the lender may exclude the following:

- Disputed medical accounts/collections;
- Charged off accounts;
- Disputed derogatory accounts that are the result of identity theft, credit card theft, or unauthorized use when evidence (police report, attorney correspondence, creditor statement) is provided to support the applicant's explanation; or
- Accounts of a non-purchasing spouse in a community property state.

**GUS Accept files:**

GUS Accept files with less than \$2,000 in disputed derogatory accounts will require the lender to determine if the disputed accounts may impact the applicant's ability to repay the proposed mortgage obligation. Each account (excluding those listed above) must include a minimum monthly payment of: 1. The payment stated on the credit report, 2. Five percent of the balance of the account, or 3. A lesser amount documented from the creditor. No credit exception is required.

A GUS Accept must be downgraded to a Refer when the applicant has \$2,000 or more collectively in disputed derogatory accounts in the last 24 months.

**Refer, Refer with Caution and manually underwritten files:**

The lender must analyze the potential impact to the applicant's ability to repay the proposed mortgage debt with disputed derogatory accounts. Each account (excluding those listed above) must include a minimum monthly payment of: 1. The payment stated on the credit report, 2. Five percent of the balance of the account, or 3. A lesser amount documented from the creditor. No credit exception is required.

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**GARNISHMENTS**

A garnishment is a legal process that instructs a third party to deduct payments directly from a debtor's wage or bank account for defaulted payments. A garnishment may be deducted by the debtor's employer and disclosed on earnings statements.

Garnishments must be included in the debt ratio. Garnishments manually added to the Asset and Liabilities GUS application page will not result in a manual downgrade of a GUS Accept underwriting recommendation. Review the debt type paid through the garnishment to ensure the applicant remains eligible for a guaranteed loan.

**NON-FEDERAL JUDGMENT**

A judgment is a formal decision made by a court following a lawsuit. The judgment is a legally enforceable court order which could result in various methods to collect the debt.

Court ordered judgments must be paid in full or have evidence timely payments are made per an agreement with the creditor. Include the monthly payment (if applicable) in the debt ratio. A GUS Accept file is not required to be downgraded due to the manual entry of the payment.

Confirm the Declarations in GUS and/or the loan application accurately reflect the presence of a judgment.

**NON-PURCHASING SPOUSE DEBTS (NPS)**

Lenders must follow applicable community property state (CPS) lending laws when the applicant(s) and/or property reside in a CPS. The credit history of the NPS is not a reason to deny a loan application.

GUS retrieves credit reports for the applicant(s). Therefore, the credit report for an NPS must be obtained outside of GUS and uploaded as a document with a complete loan submission. Lenders must manually enter the debts of an NPS as required by law. Lenders must complete the "Notes" data field to reflect "NPS debt" as applicable. A GUS Accept file is not required to be downgraded due to the manual entry of NPS debts.

CPS's include: Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington, and Wisconsin. Puerto Rico and several Indian jurisdictions allow community property ownership. Alaska is an opt-in CPS. Property is separate unless both parties agree to make it community property through a community property agreement or trust.

Lenders are responsible to know CPS laws and requirements for the treatment of NPS debts.

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**DEED-IN-LIEU (DIL)**

A deed-in-lieu of foreclosure allows the borrower to convey or deed all interest in a property to the lender to satisfy a loan in default and avoid foreclosure. The DIL will be reflected in the applicant's credit score and public records. Lenders must confirm the Declarations in GUS and/or on the loan application are completed accurately.

A DIL recorded 36 months prior to the date of loan application is not adverse credit.

**GUS Accept files:**

No downgrade or credit exception required.

**Refer, Refer with Caution, and manually underwritten loan files:**

A credit exception is required for a DIL in the previous 36 months prior to loan application.

An applicant that has a DIL recorded post-divorce/recorded legal separation agreement and the home was awarded to the ex-spouse/remaining party may document the loan was paid as agreed prior to date of divorce decree/legal separation agreement. The payment history on the credit report or other documentation from the loan servicer/lender may be retained to confirm eligibility.

**FORECLOSURE OR REPOSSESSION**

A foreclosure is the legal process by which a lender takes control of a property, evicts the homeowner (if necessary), and sells the home to attempt to satisfy the mortgage debt. The current homeowner(s) is no longer able or willing to make agreed upon mortgage payments as stipulated in the mortgage contract. Repossessions occur when the borrower cannot or will not remit payment for the collateral secured with the lender. The lender may sell the collateral to satisfy the debt. A deficiency balance may remain. These adverse credit actions will be reflected in the applicant's credit score and public records as applicable. Lenders must confirm the Declarations in GUS and/or on the loan application are completed accurately.

A foreclosure discharged, or a repossession reported 36 months prior to the date of loan application is not adverse credit.

**GUS Accept files:**

No credit exception is required.

**Refer, Refer with Caution, and manually underwritten loan files:**

A credit exception is required when the applicant has a foreclosure discharged or a repossession reported in the previous 36 months prior to loan application.

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**FORECLOSURE OR REPOSSESSION (continued)**

An applicant that has a foreclosure discharged or a repossession reported post-divorce/recorded legal separation agreement and the home was awarded to the ex-spouse/remaining party may document the loan was paid as agreed prior to date of divorce decree/legal separation agreement. The payment history on the credit report or other documentation from the loan servicer/lender may be retained to confirm eligibility.

USDA considers the loss of a timeshare adverse credit of a long-term obligation and not a foreclosure. This loss will be reflected in the credit score. Lenders must review the applicant's credit history to determine if they are an acceptable credit risk. No credit exception is required for the loss of a timeshare.

**SHORT SALE**

A short sale allows a homeowner to sell their property for less than the balance due on the mortgage. All sales proceeds go to the lender. The lender will either forgive the difference owed or a deficiency judgment may be obtained to require the borrower to repay the lender all or part of the remaining balance. The short sale will be reflected in the applicant's credit score and public records. Lenders must confirm the Declarations in GUS and/or the loan application are completed accurately.

A short sale closed 36 months prior to the date of loan application is not adverse credit.

**GUS Accept files**

No credit exception is required.

**Refer, Refer with Caution, and manually underwritten loan files**

A credit exception is required when the applicant has a short sale closed 36 months prior to loan application.

An applicant that has a short sale closed post-divorce/recorded legal separation agreement and the home was awarded to the ex-spouse/remaining party may document the loan was paid as agreed prior to date of divorce decree/legal separation agreement. The payment history on the credit report or other documentation from the loan servicer/lender may be retained to confirm eligibility.

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**PREVIOUS USDA LOSS**

An applicant provided a Section 502 Single Family Housing Direct or Guaranteed loan that resulted in a loss paid by the Federal government, **must have their file reviewed by a USDA official for eligibility.**

**The applicant and lender must:**

1. Explain and document the circumstances that led to the loss paid on their behalf. Example: If the loss was due to reduced wages, IRS tax transcripts would document the loss of income. Medical explanations are not required to submit private health information;
2. Explain why the loss is unlikely to recur. Example: Losses due to unemployment and no medical insurance would show a new stable work history with medical benefits; and
3. Explain positive aspects of the loan file which attribute to future success. Examples: Stable job time of 2 years or more, low qualifying ratios, reserves available post loan closing, etc.

USDA will review the explanation and supporting documentation as applicable to determine if the applicant(s) will be eligible for a new guaranteed loan. The approved lender is not authorized to determine loan eligibility.

**RENT/MORTGAGE PAYMENT HISTORY**

An indicator of future mortgage payment probability is the applicant's payment of their current rent or housing. Lenders should include the current rent or mortgage payment amounts on the Income and Expenses GUS application page and/or the loan application.

**GUS Accept files:**

No Verification of Rent (VOR) required. No credit exception required.

**GUS Refer, Refer with Caution, or manually underwritten loan files:**

A VOR may be required. Refer to the GUS Underwriting Findings Report to determine if a VOR is required for a complete loan application. If a full 12-month VOR is not available, lenders may verify the amount of rental history that has been paid. One rent or mortgage payment paid 30 or more days past due in the previous 12 months is significant derogatory credit and will require a credit exception.

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## LEARNING CHECKS

7 CFR Part 3555 / HB-1-3555



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## QUESTION

*Topic*

- Question will be bulleted with scenario, or
- Include a statement/question

TRUE/FALSE or other answer options will be displayed



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## ANSWER

*Topic*

*7 CFR Part 3555 and HB-1-3555 references provided*

### **X. Correct Response**

- Additional guidance for clarification may be provided



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*Ready?*

LET'S GET  
STARTED!



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## QUESTION

### *Credit Analysis*

- GUS "Accept" underwriting recommendation
- Underwriter believes there are risks and weaknesses within the file

Underwriter must approve the loan file due to the GUS "Accept" underwriting recommendation.

A. TRUE      B. FALSE



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## ANSWER

### *Credit Analysis*

3555.107(b)(3), HB 5.3

#### **B. FALSE**

- GUS is a tool to help assess risk
- Lenders are responsible for all final loan decisions
- GUS “Accept” underwriting recommendation does not indicate loan approval



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## QUESTION

### *Credit Analysis*

- GUS “Refer” underwriting recommendation
- Auto Loan: 24 months reviewed (closed 12 months)
- Visa: 13 months reviewed (closed 24 months)
- MasterCard: 16 months
- No housing verification

Closed tradelines are not eligible to validate the credit score so non-traditional tradelines must be obtained.



A. TRUE      B. FALSE

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## ANSWER

*Credit Analysis*

3555.151(i)(3), HB Attachment 10-A: Credit Scores and Validation

**B. FALSE**

- Tradelines on the credit report may be open, closed, and/or paid in full



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## QUESTION

*Credit Analysis*

- GUS “Refer with Caution” underwriting recommendation
- Target Red Card: 6 months
- Auto Loan: 2 months
- Visa: 13 months
- Student Loan: 36 months, deferred status

Credit score validation requirements have been met.

A. TRUE      B. FALSE



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## ANSWER

### *Credit Analysis*

*3555.151(i)(3), HB Attachment 10-A: Credit Scores and Validation*

#### **A. TRUE**

- Two tradelines with a 12 month history are reported
- Deferred loans are eligible tradelines to validate a credit score



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## QUESTION

### *Credit Analysis*

Non-traditional credit borrower

- VOR: 12 months, lease ended 8 months ago
- Electricity Rocks: 18 months
- Mad Max cable: 16 months

Non-traditional credit requirements have been met.

A. TRUE      B. FALSE



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## ANSWER

### Credit Analysis

*3555.151(i)(6), HB Attachment 10-A: Non-Traditional Credit*

#### **B. FALSE**

- VOR was closed more than 6 months at time of loan application
- Three non-traditional tradelines required, applicant needs one more (assuming electric bill and cable continue to be eligible)



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## QUESTION

### Credit Analysis

Non-traditional credit borrower

- Clear Signal Cell: 16 months
- Mad Max Internet: 18 months
- Car Insurer A: 8 months
- Car Insurer B: 4 months (switched providers, no gaps)
- No housing verification

Non-traditional credit requirements have been met.



A. TRUE      B. FALSE

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## ANSWER

### *Credit Analysis*

*3555.151(i)(6), HB Attachment 10-A: Non-Traditional Credit*

#### **A. TRUE**

- No housing verification = three non-traditional tradelines required
- 12 months of payment for similar service without gaps allowed (car insurance)
- 12 individual payments not required: bi-annual or annual payments that represent 12 months of payment accepted



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## QUESTION

### *Credit Analysis*

- Non-federal judgment: \$1,850
- Documented repayment agreement: \$100/month
- 5 months of repayment documented

The underwriter may approve the loan without requiring this debt to be paid in full.

**A. TRUE     B. FALSE**



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## ANSWER

### *Credit Analysis*

*3555.151(i)(4), HB Attachment 10-A: Non-Federal Judgment*

#### **A. TRUE**

- Non-federal judgment
- Repayment plan in place
- 3 months of payments have been made prior to loan application



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## QUESTION

### *Credit Analysis*

- GUS "Accept" underwriting recommendation
- 660 middle credit score
- A VOR is not required for rent entered

A. TRUE    B. FALSE



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## ANSWER

### *Credit Analysis*

*3555.151(i)(2), HB Attachment 10-A: Rent/Mortgage Payment History*

#### **A. TRUE**

- VOR not required for GUS “Accept” files



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## QUESTION

### *Credit Analysis*

- GUS “Accept” underwriting recommendation
- 700 middle credit score
- Undisclosed debt of \$200
- Conditional Commitment not yet issued

File must be downgraded to a “Refer”

A. TRUE      B. FALSE



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## ANSWER

### *Credit Analysis*

*3555.151(i)(2), HB Attachment 10-A: Credit Inquiries/Recent Debts/Undisclosed Debts*

### **B. FALSE**

- Lender must manually enter debt on the Asset and Liabilities page
- No downgrade is required



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## QUESTION

### *Credit Analysis*

- Applicant's divorce was final 10/2017
- Applicant's ex-spouse was awarded home, no refinance complete, late payments began 12/2018
- Short Sale completed 6/2019
- Applicant is now applying for a guaranteed loan

The Short Sale is adverse credit for the applicant.

A. TRUE      B. FALSE



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## ANSWER

### Credit Analysis

3555.151(i), HB Attachment 10-A: Short Sale

#### B. FALSE

- Mortgage was current at the time of divorce
- Documentation must be retained for support
- No credit exception is required



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## QUESTION

### Credit Analysis

- GUS "Refer" underwriting recommendation
- Chapter 7 bankruptcy discharged 30 months ago
- Applicant filed due to loss of job and major medical issues
- Current job time: 2 years, 4 months
- Rent: \$750 for 2 years    New PITI: \$800
- Ratios: 17/30    Reserves: 2 months

Underwriter could grant an exception to bankruptcy per HB Attachment 10-A: Credit Exceptions.



A. TRUE    B. FALSE

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## ANSWER

### *Credit Analysis*

*3555.151(i)(3) and (4), HB Attachment 10-A: Credit Exceptions*

#### **A. TRUE**

- Mitigating circumstances are temporary in nature and beyond applicant's control
- Current job is over 12 months, with no new adverse credit
- Credit waiver would meet HB Attachment 10-A: Credit Exceptions



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## QUESTION

### *Credit Analysis*

Monthly liability changes prior to close

- Property taxes: +\$40
- New charge account: +\$25

GUS does not have to be released back to the lender for updating since the individual liabilities did not increase by more than \$51 each.

A. TRUE      B. FALSE



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## ANSWER

## Credit Analysis

*3555.151, HB Attachment 10-A: Recent/Undisclosed Debts/Increased Balance of Existing Debts Identified After A Conditional Commitment Is Issued*

**B. FALSE**

- Cumulative debts increased by \$51 or more
- Lender must request the GUS loan be released back by USDA for updating
- Lender cannot close loans without a valid Conditional Commitment



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*Way to Go!*  
**LEARNING CHECK  
 COMPLETED!**



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