Welcome to the Credit Analysis training module presented by USDA’s Single Family Housing Guaranteed Loan Program.
Training Objectives

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

The objectives of the training include:

• Demonstrating where the training topic is located in the program regulation, 7 CFR Part 3555 and the technical handbook, HB-1-3555 and

• Providing learning checks to help you gain a working knowledge of the topic

• In addition to the regulation and technical handbook, the agency has developed many other resources and tools to assist you. If you have not yet completed the Single Family Housing Guaranteed Loan Program Overview training module, please take a few moments to review that module to become more familiar with navigating through your resources and tools.

• Every effort has been made to ensure this training and all references are accurate, however, program changes and updates do occur. Please ensure you always reference the most recent USDA publications.
The topic of credit analysis is located in Subpart D, in section 3555.151.
Section 3555.151(i) outlines these very important points to remember regarding the analysis of credit:

1. Credit is verifiable and there is evidence to document it.

2. The credit history should demonstrate the applicant’s ability and willingness to repay their debts in a timely manner.

3. An acceptable credit score or a validated credit score alone does not indicate an acceptable credit history. Underwriters must continue to review the credit history and patterns of repayment.

4. Underwriters should draw a logical conclusion regarding the probability of mortgage repayment based on the applicant’s current credit history.

5. The GUS (The Guaranteed Underwriting System) does not approve loans. The GUS is a tool to assist lenders to evaluate risk.
• 3555.151(i) lists the credit qualifications that apply to guaranteed loan applicants.

• Manually underwritten loans will require credit exceptions issued by the approved lenders underwriter when derogatory instances of adverse credit are present.
These instances of adverse credit include but are not limited to: foreclosures, Chapter 7 and 13 bankruptcies, late rent/housing payments, and previous USDA loans that resulted in a U.S. Government paid loss.
• Underwriters may consider mitigating circumstances for adverse credit when they are temporary in nature and beyond the applicant’s control.

• Some adverse credit cannot be waived, such as Federal judgments.

• Non-traditional credit is acceptable when applicants do not have traditional credit histories, and non-purchasing spouse credit reports are required when the applicant resides in a community property state.
The 7 CFR Part 3555 regulation cannot cover every topic and every potential scenario, therefore a technical handbook has been published to support the regulation and provide additional clarification.

Credit Analysis is located in chapter 10 of HB-1-3555.
Chapter 10 and Attachment 10-A, “Credit Matrix”, are easy to navigate resources.

- You will find topics such as credit score validation, non-traditional credit, bankruptcy, collections, and many other topics addressed here.

- Bookmark Chapter 10 to find answers to all your credit questions!
The following slides will highlight a few key credit requirements.

- Credit requirements may vary for loans underwritten with the assistance of the GUS compared to those that are manually underwritten.
- Lenders and investors may impose overlays. A common overlay is credit score requirements. Rural Development does not have a minimum published credit score, but many lenders do.
- It is the lender’s responsibility to determine the creditworthiness of their applicant. In some cases of adverse credit, the lender’s underwriter can grant credit exceptions.
- There are a few instances of adverse credit that a lender cannot waive which include delinquent non-tax Federal debt, delinquent child support, previous USDA losses, and a CAIVRS claim indicating the applicant is delinquent on federal debt.
Credit Scores and Validation

- The credit score will assist the GUS in determining the appropriate underwriting recommendation.
  - The GUS will not accept credit scores impacted by Experian Boost.
- GUS loans receiving an “Accept” recommendation do not require credit score validation.
- GUS loans receiving a “Refer” or “Refer with Caution” recommendation and manually underwritten files do require credit score validation.
  - The lender must be able to validate the score of at least one applicant whose income and/or assets is used to originate the loan.
  - There must be a minimum of 2 tradelines with a 12 month history to validate a credit score. Tradelines can be open, closed, and/or paid in full.
  - Eligible tradelines can include but are not limited to: secured and unsecured loans, revolving accounts, installment loans, credit cards, collections, and charge off accounts.
  - Ineligible tradelines include: public records, disputed accounts, and self-reported accounts.
• Eligible tradelines on the credit report and non-traditional tradelines can be combined to meet the cumulative tradeline number requirement.

• If there are no eligible tradelines on the credit report, non-traditional credit must be verified.

**Credit Inquiries/Recent Debts/Undisclosed Debts**

• Lenders must ensure debts for new installment or revolving accounts are manually entered into GUS.
Credit Exceptions

- Adverse credit does not always mean an applicant is unable or unwilling to meet their financial obligations.

- Sometimes bad things happen to good people.

- An unexpected loss of job, reduction of benefits, illness, divorce; all of these unfortunate events can have a negative impact on credit.

- Credit exceptions are NOT required for GUS loans that receive an Accept underwriting recommendation.

- For loans that receive a Refer or Refer with Caution underwriting recommendation, when it can be documented the event was temporary and beyond the applicant’s control and the applicant’s situation has improved, the lender may consider granting a credit exception.

- USDA does not approve the lender’s credit exception. Lenders are responsible for their credit decisions.
Non-Traditional Credit

- Not everyone chooses to use traditional credit and that’s ok.

- There are many non-traditional credit sources that can be verified to establish an applicant’s credit history.

- Applicants with a 12 month VOR require two non-traditional tradelines, the VOR plus one additional tradeline.

- Applicants without a 12 month VOR require three non-traditional tradelines.

- Eligible tradelines must have a 12 month history and have been closed no more than 6 months prior to loan application.

- Examples include but are not limited to: rent or housing payments, utility services, cell phone, insurance payments, childcare, and auto leases.
Child support, alimony, or other court ordered debts as well as monthly subscription services such as gym memberships are not eligible non-traditional tradelines.

**Recent and Undisclosed Debts and Increased Balances of Existing Debts**

- If a recent/undisclosed debt or increased balance of an existing debt is identified after a Conditional Commitment has been issued, the lender must obtain and retain all documentation in their permanent case file.
  - This would include an increase in installment debts, revolving debts, real estate taxes, homeowner’s insurance, etc.

- If the cumulative debt amount increase is $50 or less, the lender may retain their Conditional Commitment and no further action is required.

- If the cumulative debt amount increases by $51 or more, the lender must contact USDA to release the loan back in GUS.
  - The lender must update the debts in GUS and complete another final submission. The loan cannot close until USDA issues a new commitment. Remember, any negative change to a GUS application can affect the underwriting recommendation.
  - Ensure realistic estimates are input into the GUS and educate applicants about the risks of incurring additional debt prior to close.
Credit Accounts and Adverse Credit

- Authorized user accounts do not require a monthly payment be included in the debt ratio. However, lenders may include a payment at their discretion.

Chapter 7 Bankruptcy

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

- If the bankruptcy is less than 36 months, a credit exception is required if the GUS underwriting recommendation is a “Refer” or “Refer with Caution” or the file is a manually underwritten file.

- If the bankruptcy included a mortgage, the lender must include any debt that the applicant may still be liable for such as real estate taxes and home owners insurance.
Chapter 12 or 13 Bankruptcy

- When there is a Chapter 12 or 13 Bankruptcy plan in progress and the GUS loan receives an “Accept” recommendation, the lender must confirm all payments are included on the Assets and Liabilities application page.
  
  - Neither a GUS downgrade nor a credit exception are required.

- If the loan receives a “Refer” or “Refer with Caution” underwriting recommendation or is a manually underwritten loan, the lender must retain the bulleted list of items shown on this slide.

- If the plan has been completed for 12 months prior to loan application, nothing further is required regardless of underwriting recommendation.
**Charge-Offs**

- If there are charge-offs, the lender’s underwriter must determine if the credit risk is acceptable.
- Charge-offs are not required to be paid; however, if there is a repayment plan in place, the payment must be included.

**Collections**

- The lender’s underwriter must review all collection accounts and determine if it is an acceptable credit risk regardless of the GUS underwriting recommendation.
- If the cumulative total of all non-medical collections exceeds $2000, the lender must:
  1. Require payment in full of these accounts prior to closing
  2. Use an existing repayment agreement amount OR
  3. Include five percent of the outstanding balance.
- All open collections must be listed on the Asset and Liabilities GUS page and noted and marked accordingly.
**Collections**

- A credit exception is not required for collection accounts regardless of the GUS underwriting recommendation.

**Consumer Credit Counseling Debt Management Plans**

- Lenders must include the monthly payment amount in the monthly liabilities and must retain the bulleted list of items shown on this slide.

**Delinquent Court Ordered Child Support**

- Applicants currently delinquent on court ordered child support are ineligible unless they have an approved repayment agreement and have made 3 timely, consecutive payments.

**Delinquent Federal Non-Tax Debt**

- Applicants with delinquent Federal non-tax debt are ineligible until the debt is paid in full or a release of liability is documented.
Federal Taxes

- Applicants currently delinquent on federal tax debt are ineligible for a guaranteed loan unless they have a repayment plan approved by the IRS or pay the total delinquent amount in full prior to closing.
  
  - A minimum of 3 timely, consecutive payments must have been made and the applicant cannot prepay a lump sum at one time to equal 3 monthly payments.

- An IRS approved extension to file a tax return does not grant the applicant additional time to pay their taxes that are due.

- Applicants must pay their estimated income taxes due by the filing date or they are considered delinquent.

Non-Derogatory Disputed Accounts

- The lender’s underwriter must review disputed accounts and determine if the debt continues to be due from the applicant.

- A GUS “Accept” recommendation may be retained if one of the items on the bulleted list of items shown on this slide is obtained.
GUS “Refer”, “Refer with Caution”, or manually underwritten loans with non-derogatory disputed accounts require the following:

- The applicant to provide the lender with documentation to support the reason and the basis of the dispute. The lender must determine the impact that the debt will have on repayment of the proposed mortgage debt.
- Each account must include the payment stated on the credit report, five percent of the balance, or a lesser documented payment amount from the creditor.

**Derogatory Disputed Accounts**

- The lender must consider 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 and collections
  - Charged off accounts
  - Disputed accounts that are documented to be the result of identity or credit card theft
  - Accounts of a non-purchasing spouse in a community property state.
- A GUS “Accept” loan with less than $2000 in disputed derogatory accounts will require the lender to determine if the accounts impact the applicant’s repayment ability. Each account must include a payment.
- A GUS “Accept” loan must be downgraded to a “Refer” when the applicant has a cumulative total of $2000 or more in disputed derogatory accounts.
Garnishments

- Garnishments must be included in the debt ratio and manually added to the Asset and Liabilities GUS application page.

- Lenders must review the type of garnishment to ensure the applicant remains eligible.

Non-Federal Judgment

- 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 in the debt ratio.

- Lenders must ensure the Declarations in the GUS are accurately reflected.

Non-Purchasing Spouse Debts

- When an applicant resides in a community property state, the lender must know and adhere to state law if there is a non-purchasing spouse.

- The GUS can only retrieve credit reports for applicants so the lender will have to obtain a credit report for the non-purchasing spouse outside of the GUS and manually enter the debts as required by state law.

- The credit report for a non-purchasing spouse is obtained to retrieve monthly debt liabilities only. Their credit history is not a reason to deny a loan.
Deed-in-Lieus, Foreclosures, and Short Sales

- Lenders must ensure the Declarations in the GUS are completed accurately.

- A deed-in-lieu recorded, foreclosure discharged, or short sale closed 36 months prior to the date of loan application is not adverse credit.

- If the loan receives a GUS “Accept” underwriting recommendation, neither a GUS downgrade nor a credit exception is required.

- A credit exception is required if a deed-in-lieu, foreclosure, or short sale occurred within the past 36 months and the GUS underwriting recommendation is a “Refer” or “Refer with Caution”.

Guaranteed Knowledge
• A deed-in-lieu, foreclosure, or short sale that occurred post divorce or legal separation and the home was awarded to the other party will not count adversely against the applicant if documentation evidences the debt was current at the time the home was awarded to the other party.
Previous USDA Loss

- A lender cannot waive adverse credit for an applicant whose previous Rural Development Direct or Guaranteed home loan resulted in a loss to the agency. Only a Rural Development official may grant this exception.

- Rural Development will perform its review after the lender’s underwriter has approved the loan and has processed the final GUS submission.

- The applicant and lender must provide a letter of explanation and supporting documentation as required in Attachment 10-A.

Rent/Mortgage Payment History

- An applicant’s current rent or mortgage payment history is a good indicator of the probability of their future mortgage payments.

- A GUS “Accept” file does not require a verification of rent or mortgage.

- A GUS “Refer”, “Refer with Caution”, or manually underwritten loan may require a verification of rent or mortgage. The lender will refer to their GUS Underwriting Findings Report to determine if it is required.

  - If a full 12 month verification is not available, the lender may utilize the time period that is available.

  - One rent or mortgage payment that was 30 or more days late in the past 12 months is significant derogatory credit and will require a credit exception from the lender’s underwriter.
The best way to learn information is to test your knowledge!
The following question slides will list:

- The topic,
- A question or scenario, and
- potential responses.
The answer slides will list:
• The topic,
• the reference to the answer from the regulation and handbook,
• the correct response, and
• any additional clarification that may be helpful.
Let’s get started!
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

Read the question on the slide and select a response.
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

False

GUS does not issue loan approvals. GUS only makes recommendations based on the data entered.

Lenders are responsible for final loan approval decisions.
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

Read the question on the slide and select a response.
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

False

Tradelines do not have to be currently open to be eligible.
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

Read the question on the slide and select a response.
**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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**True**

Deferred loans are eligible tradelines to validate a credit score.
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

Read the question on the slide and select a response.
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)

False

Non-traditional tradelines must be current, which is defined as closed no more than 6 months prior to loan application, this is why the VOR is ineligible.

Therefore this file requires three non-traditional tradeline references. If the electric and cable bills are eligible, only one more source is required.
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
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

True

The car insurance documentation may be acceptable because even though it was two different providers, there is still a 12 month history for the same type of obligation with no gaps in payments.

USDA also accepts bi-annual or annual payment plans to meet 12 months of payment history.
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

Read the question on the slide and select a response.
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

True

This is a non-federal judgment.

There is a repayment plan in place, and a minimum of 3 months of payments have been paid as agreed.
• GUS “Accept” underwriting recommendation
• 660 middle credit score
• A VOR is not required for rent entered

A. TRUE    B. FALSE
3555.151(i)(2), HB Attachment 10-A: Rent/Mortgage Payment History

A. TRUE

• VOR not required for GUS “Accept” files

True

GUS Accept files:

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

Read the question on the slide and select a response.
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

False

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.
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

Read the question on the slide and select a response.
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

False

The mortgage was current at the time the divorce was final and the home was awarded to the applicant’s ex-spouse.

Documentation must be retained to support the date of the divorce as compared to when late payments began.
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

Read the question on the slide and select a response.
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

True

BK is less than 36 months discharged, but there are mitigating circumstances that meet HB requirements. A loss of job and medical issues are certainly cited as temporary in nature and beyond the control of the applicant.

There are also compensating factors to support the probable repayment of the mortgage, such as good current job time, reserves, new PITI is similar to current rent, etc.
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

Read the question on the slide and select a response.
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

False

GUS must be released back for updating when the cumulative debt total increases by $51 or more.
Way to Go!
LEARNING CHECK COMPLETED!

Way to go! You have completed the learning checks!
Thank you for supporting the USDA Single Family Housing Guaranteed Loan Program and America’s rural homebuyers!
This will conclude the training module. Thank you and have a great day!