Welcome to Credit Analysis, presented by USDA’s Single Family Housing Guaranteed Loan Program!
The objectives of the training include:
1. Demonstrating where the training topic is located in the program regulation, 7 CFR Part 3555 and the technical handbook, HB-1-3555.
2. Providing learning checks to help you gain a working knowledge of the topic, and
3. Links to online resources to assist in locating program information.
Things change!

• Every effort has been made to ensure training references are accurate at the time of publication.

• Always reference the most recent USDA publications available online.

Every effort has been made to ensure this training and all references are accurate, however, new program revisions and clarifications may occur. Therefore, please ensure you always reference the most recent USDA publications available online.

This training module is not intended to replace the need to reference the regulation, technical handbook, and additional USDA published documents regarding the Guaranteed Loan Program.
7 CFR Part 3555 is the program regulation. It is the first place users should look for the answers to their questions.

The regulation is the rule and it cannot be overridden by the technical handbook.

The 7 CFR Part 3555 is comprised of 8 subparts, A through H.

You can access the full regulation online as Appendix 1 from the Regulations and Guidelines website.
The Regulations and Guidelines website is located from the link shown on the slide.

Under “Rural Development” there are many items available from this home page.

To access the regulation, select “Handbooks.”
A list of all USDA Rural Development handbooks will display.

Be sure to select the correct technical handbook: HB-1-3555.

Once HB-1-3555 is selected, the entire handbook, including all appendix will display for selection.

Appendix 1 is the full regulation, 7 CFR Part 3555.
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. There is evidence to document it.
2. Credit history should demonstrate the applicant’s ability and willingness to repay their debts in a timely manner.
3. An acceptable credit score (above a minimum threshold) or a validated credit score (the required number of tradelines are reported with minimum 12 months of history) 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. GUS (The Guaranteed Underwriting System) does not approve loans. GUS is a tool to assist lenders to evaluate risk.
7 CFR Part 3555, 3555.151(i) lists the credit qualifications that apply to guaranteed loan applicants. This includes verifying the credit history to ensure it reflects an ability and willingness to repay debt obligations on time. Manually underwritten loans will require credit waivers issued by the approved lenders underwriter when derogatory instances of adverse credit are present.
Adverse credit listed in the regulation includes but is 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 eligible to consider applicants that do not have traditional credit histories, and non-purchasing spouse credit reports are required when applicable.
It is always a great idea to provide homeownership counseling, especially to first time homebuyers but it is only required to be completed when counseling is offered free of charge by USDA or another Federal agency in the immediate area.
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. HB-1-3555 has 20 chapters.
The handbook may be accessed from the Regulations and Guidelines website. Credit Analysis is located in Chapter 10.
This screen shot displays the Table of Contents of Chapter 10. This helps the user to locate specific topics more quickly.
A few helpful tips:

1. The underwriter of the loan is the approved lender’s underwriter.
2. USDA is NOT the underwriter of the loan.
3. When researching topics, it is helpful to begin with the Table of Contents for the regulation and the handbook.
4. A great best practice when searching for information is to open the regulation or a handbook chapter, select the “Control” button on the keyboard, hold it down, and then also select the “F” key. A keyword search box will appear. Enter a keyword or phrase to locate information more quickly.
The best way to learn information is to test your knowledge!
Each question slide will list:
• the topic
• A question or scenario, and
• potential responses.
The answer slide 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!
Credit analysis

It is the lender’s responsibility to determine credit worthiness of the applicant(s)?

A. TRUE       B. FALSE

Read the question on the slide and select a response.
Credit analysis

ANSWER: 3555.151(i), HB 10.1

A. TRUE

- GUS is only a tool to assist in overall risk evaluation
- Incorrect information in = incorrect recommendation out
- Skilled underwriters must review the loan application to make prudent loan decisions per the regulation

True
GUS is only a tool, it does not render loan approval decisions.

Incorrect data entered into GUS results in an unsupported uw recommendation. Always double check data entry.

Regardless of underwriting method utilized, the underwriter must determine a loan approval or denial decision within the regulation.
Credit analysis

- GUS Refer uw recommendation
- Applicant has a previous USDA loan which ended in foreclosure and a loss claim paid by the Agency
- Approved lender must submit documentation to USDA to explain the reasons for the loss
- USDA determines the applicant’s eligibility for a new guaranteed loan.

A. TRUE    B. FALSE

Read the question on the slide and select a response.
True
USDA will determine if the Agency will make a second loan to an applicant that has already suffered one paid loss.

Documentation to explain the previous loss from the applicant will be required.
Credit analysis

An applicant with a delinquent non-tax Federal debt is ineligible for a guarantee loan?

A. TRUE    B. FALSE

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

Federal debts (other than U.S. Court Tax Court debts) that are open and unpaid will render the applicant ineligible.
Credit analysis

GUS will validate the credit score used for the underwriting recommendation.

A. TRUE  B. FALSE

Read the question on the slide and select a response.
False.
A human must review the credit report to identity at least two eligible tradelines that have a 12 month history.

Only one applicant must have a validated credit score.
Credit analysis

A validated credit score indicates an acceptable credit history.

A. TRUE  B. FALSE

Read the question on the slide and select a response.
Credit analysis

ANSWER: 3555.151(i), HB 10.5

B. FALSE

- Validated score = sufficient credit history to support score
- Indicates the file is not thin credit

False
A validated score only determines the applicant has enough of a credit history to not be considered a thin credit file.
Credit analysis

Applicant A: 720
Applicant B: 640

Both scores are 640 or higher and do not require validation.

A. TRUE    B. FALSE

Read the question on the slide and select a response.
Credit analysis

**ANSWER: 3555.151(i), HB 10.5**

B. FALSE

- All scores must be validated
- Minimum tradelines/time open required

---

False
There is no credit score threshold that would render a file exempt from being validated.
Credit analysis

Applicant A: 720: 8 tradelines, 4 open 12 months +
Applicant B: 640: 1 tradeline, open 6 months
GUS Accept uw recommendation
This file cannot retain the GUS Accept uw recommendation

A. TRUE   B. FALSE

Read the question on the slide and select a response.
Credit analysis

ANSWER: 3555.151(i), HB 10.5

B. FALSE

• Only **one** applicant must meet HB 10.5
• Additional applicants are not required to meet specific traditional or non-traditional tradeline requirements

False
Only ONE applicant must have a validated credit score.

The other applicant(s) is not required to have a specific number of tradelines/history.
Credit analysis

• Target Red Card: 6 months
• Auto Loan: 24 months
• Visa: 13 months
• MasterCard: 16 months
• HB 10.5 is mct

A. TRUE B. FALSE

Read the question on the slide and select a response.
True
The minimum of two required tradelines with a 12 month history are on the report.

The credit score is validated under 10.5 of the handbook.
Credit analysis

- Tradelines on the credit report must be open with a recent payment history to meet HB 10.5
- Closed accounts are not eligible

A. TRUE  B. FALSE

Read the question on the slide and select a response.
Credit analysis

ANSWER: 3555.151(i), HB 10.5

B. FALSE

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

• Target Red Card: 6 months
• Auto Loan: 2 months
• Visa: 13 months
• Student Loan: 36 months, deferred
• HB 10.5 is met

A. TRUE  B. FALSE
False
There are not two tradelines with 12 month histories.

Deferred student loans are not eligible tradelines when there is no history of any payments being made for a 12 month timeframe.

A GUS Accept recommendation must be downgraded.

There is one eligible tradeline, therefore if a Verification of Rent (VOR) is available the file is validated. No VOR = two non-traditional tradelines are required to add to the one traditional line documented on the credit report.
Credit analysis

- Deferred student loan: 72 months
- Loan was in previously in repayment for 18 months
- Applicant provides evidence of repayment timeframe
- This tradeline is eligible for IIB 10.5 consideration

A. TRUE       B. FALSE

Read the question on the slide and select a response.
Credit analysis

ANSWER: 3555.151(i), HB 10.5

A. TRUE

- There is evidence of 12 months repayment for the deferred student loan
- Documentation must be retained in lender’s permanent loan file

True
Evidence to support that a minimum of 12 months of repayment did occur prior to the student loan entering deferment will be required.
Read the question on the slide and select a response.

**Credit analysis**

Non-traditional credit borrower
- VOR: 18 months
- Electricity Rocks: 18 months
- Mad Max cable: 16 months
- HB 10.6 is mct

A. TRUE      B. FALSE
Credit analysis

ANSWER: 3555.151(i)(6), HB 10.6

A. TRUE

• VOR requires one more non-traditional tradeline
• No VOR? Three non-traditional tradelines required

True
A VOR only requires one additional non-traditional tradeline.

If there is no VOR, then three are needed.
Credit analysis

Non-traditional credit borrower
• VOR: 12 months, lease ended 8 months ago
• Electricity Rocks: 18 months
• Mad Max cable: 16 months
• HB 10.6 is mct

A. TRUE    B. FALSE

Read the question on the slide and select a response.
Credit analysis

**ANSWER: 3555.151(i)(6), 10.6**

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.
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)
- HB 10.6 is met

A. TRUE  B. FALSE

Read the question on the slide and select a response.
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 recognizes bi-annual (2 payments) or annual (1 payment in full) payment plans acceptable to meet 12 months of payment history.
Credit analysis

• IRS tax judgement, obtained in U.S. Tax Court
• No repayment plan
• Underwriter may approve exception

A. TRUE    B. FALSE

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

A U.S. tax court judgment will not render the applicant ineligible, BUT there must be a repayment plan in place with three timely payments remitted.

The arrangement of a payment plan during loan application and a pre-payment of 3 months is not allowed to meet this requirement.
Credit analysis

USDA does not require consideration for medical collections.

A. TRUE       B. FALSE

Read the question on the slide and select a response.
False
Collection accounts (even medical) indicate an unwillingness or inability to repay debts that are due.

Manually underwritten loans will require an eligible credit waiver that meets HB 10.8.

When a loan file receives a GUS Accept, the underwriter may omit medical collections when they have determined during their credit review that mitigating circumstances were involved.
Credit analysis

Medical collections, charge-off accounts and other collections are not required to be listed on the 1003 and/or GUS Asset and Liability application page.

A. TRUE       B. FALSE

Read the question on the slide and select a response.
Credit analysis

**ANSWER: 3555.151(i)(1), HB 10.9**

**B. FALSE**

- File must be accurately represented
- All open debts must be identified
- Omit and complete “Notes” data field as applicable in GUS

False

Every single open debt must be listed in GUS and/or on the 1003.

If the decision is made to omit the debt, mark it as “omit” and complete the “notes” data field.
Credit analysis

A. $550 Legal Eagles  B. $350 Mad Max Cable
C. $400 Dr. Houser   D. $200 Barnes Hospital
E. $1500 X-Ray Tech  F. $700 Electricity Rocks
G. $4500 EZ Auto

- Total = $8,200 – medical ($2,100) = $6,100
- Which account(s) require 5% to be in the ratios if not paid off or have a current payment arrangement in place

Read the question on the slide and select a response.
A, B, F, and G are not medical collections or charge off accounts. These are the only two types of accounts that maybe excluded from the debt ratios during a capacity analysis. Note: The capacity analysis occurs AFTER the credit analysis.

At this point, the underwriter has determined that the applicant(s) has an acceptable credit history.

The total of the non-medical/charge off accounts exceeds $2,000

The underwriter must determine if these accounts must be paid in full, include a monthly payment approved by the creditor, or include 5% of the balance in the ratios.
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.
Credit analysis

ANSWER: 3555.151(i)(4), HB 10.10

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.
Credit analysis

- Disputed account: $250 Big TV Store
- Open 36 months
- A GUS Accept downgrade is not required

A. TRUE    B. FALSE

Read the question on the slide and select a response.
Credit analysis

ANSWER: 3555.151(i)(1), HB 10.11

A. TRUE

• Balance less than $500
• Over 24 months old

True
The balance is less than $500 and the account is more than 24 months old, therefore a downgrade of a GUS Accept loan file is not required.
Credit analysis

• GUS Accept uw recommendation
• 700 middle credit score
• A VOR is not required for rent entered

A. TRUE B. FALSE

Read the question on the slide and select a response.
Credit analysis

ANSWER: 3555.151(i), HB 10.13

A. TRUE

- The credit score is above 680
- GUS UW Findings Report will not require a VOR

True
The credit score is above 680.

If a VOR is required, the GUS uw findings report will specifically state that one is required for the loan file.
Read the question on the slide and select a response.

Credit analysis

- GUS Accept uw recommendation
- 700 middle credit score
- File must be downgraded to Refer (new debt discovered)
- A VOR is not required for rent entered

A. TRUE     B. FALSE
True
The credit score is above 680.

VOR is not required, even despite the manual downgrade.

When a lender manually downgrades a GUS Accept loan file, the uw recommendation will automatically change to Refer.

Be sure to review the final GUS Underwriting Findings Report to ensure a VOR is not required for the loan file.
Credit analysis

- Chapter 7 bankruptcy discharged less than 36 months
- GUS cannot render an Accept uw recommendation

A. TRUE       B. FALSE

Read the question on the slide and select a response.
Credit analysis

**ANSWER: 3555.151(i), HB Attachment 10-B**

B. FALSE

- GUS may render an Accept uw recommendation when additional compensating factors are present
- Ensure Declarations are correctly entered

**Manual UW:** Underwriter may grant exception if

- Minimum 12 months discharged
- Credit exception documented per HB 10.8

False

GUS may render an Accept uw recommendation even when some adverse credit instances are below the monthly thresholds cited in 7 CFR Part 3555.

Lenders must ensure the Declarations section of the GUS application and 1003 application are properly completed.

Manually underwritten loans may qualify for a credit waiver when a minimum 12 months has passed since bankruptcy discharge and a documented credit waiver meets 10.8.
Credit analysis

- Chapter 13 bankruptcy, in progress
- 8 months of payments verified
- GUS Accept uw recommendation
- A downgrade is required due to bankruptcy

A. TRUE     B. FALSE

Read the question on the slide and select a response.
Credit analysis

ANSWER: 3555.151(i), HB Attachment 10-B

B. FALSE

- Scorecard has rendered uw recommendation
- No credit exception required
- Include applicable payment in liabilities

False

GUS may render an Accept, which will reduce the credit documentation required.

Include the monthly Chapter 13 payment in the debt ratios.
Credit analysis

• Mike and Sara’s divorce was final 10/2013
• Sara awarded home, no refinance complete, late payments began 12/2014
• Short Sale completed 6/2015
• The Short Sale is adverse credit for Mike

A. TRUE    B. FALSE

Read the question on the slide and select a response.
False
The mortgage was current at the time the divorce was final and the home was awarded to Sara.

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

• GUS Refer uw 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 10.8

A. TRUE   B. FALSE
Credit analysis

ANSWER: 3555.151(i)(3) and (4), HB 10.8 and Att. 10-B

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 10.8

True

BK is less than 36 months discharged, but there are mitigating circumstances that meet HB 10.8. 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.
Credit analysis

- Community Property State
- A non-purchasing spouse (NPS) will reside in the dwelling
- NPS credit score is 580 with adverse credit
- Underwriter must consider the NPS credit history in their decision

A. TRUE  B. FALSE

Read the question on the slide and select a response.
Credit analysis

**Answer:** 3555.151(i)(7), HB 10.15

**B. FALSE**

- NPS credit is not a reason to deny a loan
- NPS is not a party to the note

False

The non-purchasing spouses credit is not a reason to deny the loan, as they are not legally liable for the repayment.
Credit analysis

- GUS Accept uw recommendation
- Underwriter believes there are risks and weaknesses within the file
- Underwriter must approve the loan file due to the GUS Accept uw recommendation

A. TRUE   B. FALSE

Read the question on the slide and select a response.
Credit analysis

ANSWER: 3555.151(i), HB 10.16

B. FALSE

- GUS is a tool to help assess risk
- Lenders are responsible for all final loan decisions
- GUS Accept uw 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.
Credit analysis

This letter to explain the circumstances that led to my bankruptcy in 2014. The factory I had worked at for 8 years closed on May 25, 2012. When the factory closed, I lost my health insurance. On June 1, 2012 I was struck by another car in an intersection. The wreck resulted in a broken leg, arm, and I suffered a concussion. Due to my injuries I was unable to actively seek new employment. Two surgeries and many hours of physical therapy later the medical bills were too much for us to compete with and there were no payment plan options. We did not wish to file for bankruptcy but we felt there were no other options. I have been with my current employer since September 12, 2014. We are current on all of our credit obligations and our health insurance has been restored.

This letter of explanation meets HB 10.8 for a manually uw loan?

A. TRUE B. FALSE
True
This letter is pure gold. It is an excellent account to explain the mitigating circumstances that led to the adverse credit.

The mitigating circumstances have also been resolved for 12 months prior to the loan application.
Credit analysis

Dear USDA:

The circumstances surrounding the applicant’s adverse credit meet 3555.151.

Thank you,

Regina Jones, USDA Underwriter  XYZ Lending, Inc.

This letter of explanation meets HB 10.8 for a manually uw loan?

A. TRUE  B. FALSE

Read the letter of explanation and select a response.
There is nothing in this letter to support mitigating circumstances under HB 10.8.

This waiver is insufficient.
Way to go! You have completed the learning checks!
Don’t forget the Regulations and Guidelines website is a treasure trove of USDA guideline knowledge.
Please sign up for GovDelivery messages. USDA sends out origination (including GUS) and servicing messages to alert lenders of new publications, clarifications, and additional program updates.
Thank you for supporting the USDA Single Family Housing Guaranteed Loan Program! We appreciate the opportunity to help you serve more rural homebuyers!
This will conclude the training module. Thank you and have a great day!