



New Lender Training – Part 3

Single Family Housing Guaranteed Loan Program

AGENDA



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Credit Analysis



Credit Eligibility Requirements



Underwriting Recommendation

Credit requirements vary for loans underwritten with the assistance of the GUS compared to those that are manually underwritten.



Lender Overlays

Lenders and investors may impose overlays such as minimum credit score requirements.



Lender Responsibility

It is the lender's responsibility to determine the creditworthiness of their applicant.

USDA does not underwrite loans.



Adverse Credit

In some cases of adverse credit, the lender's underwriter can grant credit exceptions.



Credit Score Validation

CREDIT SCORE Validation



When is it required?

Refer to your GUS Underwriting Recommendation & GUS Findings Report

GUS “Accept”:

- No credit score validation required!

GUS “Refer”, “Refer w/Caution”, and Manually Underwritten Files:

- 2 tradeline references with a 12-month history.
- Eligible tradelines can be open, closed, or fully paid accounts.
- Eligible tradelines may include secured or unsecured loans, revolving accounts, installment loans, credit cards, collections, etc.

No eligible tradelines on the credit report:

- Non-traditional credit must be verified.



Non-Traditional Credit

NON-TRADITIONAL Credit



How many tradelines are required?

Refer to your GUS Underwriting Recommendation & GUS Findings Report.

Present Housing Expense:

- 2 tradelines (VOR or housing payment verification plus 1 additional trade line)

No Present Housing Expense:

- 3 tradelines

Non-Traditional Credit Documentation:

- Non-Traditional Mortgage Credit Report (NTMCR)
- Self-reported tradelines on credit report
- Third-party verifications

Tradeline History:

- May be open, recently closed and/or paid in full (*recent = 6 months*)
- Must have 12-month history

UPDATE

- Monthly subscription services, gym memberships, etc. may now be considered as an eligible source.



Addressing Significant Adverse Credit

DELINQUENT Federal Taxes



Taxpayers who owe taxes and do not pay in full by the filing date are determined delinquent by the IRS.

IRS approved extension: Does not grant the applicant additional time to pay their taxes due.

Applicant that has owed taxes on previous filed return: Must make payment to the IRS by the specified deadline.

Applicant that has received tax refunds for previous filed return: May remain eligible with no estimated tax payment due to the IRS because they would not be determined delinquent.

Applicant with delinquent Federal tax debt: IS ineligible unless they have a repayment plan approved by the IRS. A minimum of 3 timely payments must have been made on the most current IRS tax repayment plan.

DELINQUENT NON-TAX Federal Debt



A non-tax Federal debt is a debt owed to the U.S. Federal Government other than Federal income taxes.

Must not be delinquent on non-tax Federal debt.

CAIVRS verification: "A" is the only acceptable response.

Ineligible until the debt is paid in full or a release of liability is documented.

Lender cannot waive delinquent Federal debt.

Delinquent Child Support

Presently delinquent court ordered child support.

INELIGIBLE unless:

Subject to the collection by an administrative offset.



Applicant has brought payments current.

The debt is paid in full, or otherwise satisfied by a documented release of liability.

NOT subject to an administrative offset.



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.



Credit Exceptions

GUS Refer, Refer with Caution, and Manually Underwritten

(NOT required for GUS Accept Loans)



CREDIT Exceptions

GUS Refer, Refer with Caution, and Manually Underwritten



When are they required?

Chapter 7 discharged within previous 36 months.

Chapter 11, 12, & 13 discharged or completed less than 12 months.

Deed-In-Lieu within 36 months prior to submission to the Agency.

Foreclosure discharged or a repossession reported within the 36 months prior to submission to the Agency.

Short sale closed within the 36 months prior to submission to the Agency.

One rent or mortgage payment paid 30 or more days past due in the previous 12 months.



CREDIT Exceptions

GUS Refer, Refer with Caution, and Manually Underwritten



When are they not required?

Overdraft/NSFs

Chapter 11, 12, & 13 discharged or completed more than 12 months

Charge-Offs

Collections

Consumer Credit Counseling

Disputed Accounts

Garnishments

Non-Federal Judgment



CREDIT Exceptions



What instances can a lender not waive?

Delinquent non-tax Federal debts

Delinquent child support

Ineligible CAIVRS results

Previous USDA Losses: Which occurred within 7 years of submission date.
(Lender will complete full underwriting review and GUS submission. USDA will make eligibility determination.)

Credit Exceptions

Creditworthiness

- Credit history problems do not always reflect an unwillingness to meet financial obligations.
- Does the documentation make sense? Does it support your decision?

Lender Responsibility

- If the lender believes the applicant is creditworthy, they may make an exception.
- Documented rationale:
 - **temporary in nature, beyond the applicant's control**, and
 - due to the current employment/financial/health of the household are **unlikely to recur**. (i.e. temporary loss of job, illness, etc.)

USDA Responsibility

- USDA *does not* approve the lender's credit exception.
- Lenders are responsible for their credit decision.



Credit Considerations



COLLECTION Accounts



When must a payment be included?

Refer to your GUS Underwriting Recommendation & GUS Findings Report

If the cumulative total of all non-medical collections exceeds \$2000, the lender must:

Require payment in full of these accounts prior to closing;

Use an existing repayment agreement amount;
OR

Include 5% of the outstanding balance.

All open collection accounts must be listed on the GUS 'Liabilities' page.

Paid at or before loan closing: *Select 'To be paid off at or before closing'.*

Not required to be paid in full: *Select 'Omit'; provide explanation.*

Repayment agreement: Include ACTUAL specified monthly payment.

RECENT Debts



Cumulative debt amount of \$50 or less

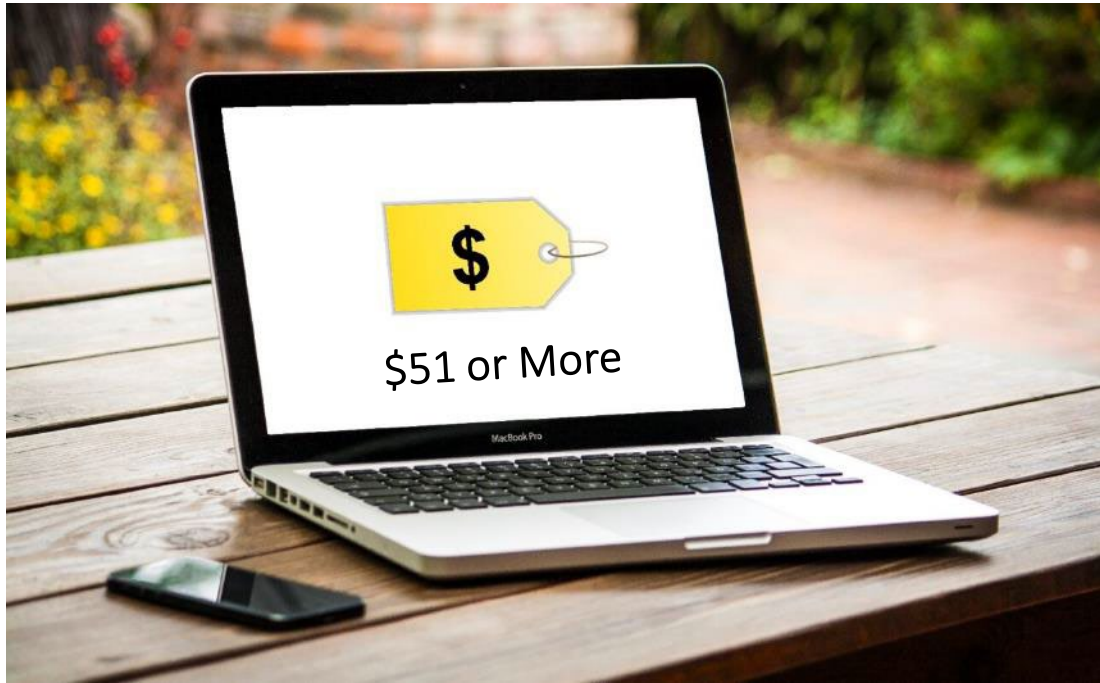
Refer to your GUS Underwriting Recommendation & GUS Findings Report

Lender may retain the issued Conditional Commitment.

Retain all documentation to support the new/increased debt(s) and payment(s) in the permanent loan file.

No further action is required.

RECENT Debts



Cumulative debt amount of \$51 or more

Refer to your GUS Underwriting Recommendation & GUS Findings Report

Lenders must request the GUS loan to be released by USDA.

Lenders must enter the new or 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 close loans without a valid Conditional Commitment.

RENT History



When must it be obtained?

Refer to your GUS Underwriting Recommendation & GUS Findings Report

GUS "Accept"

- No verification of rent or mortgage required.

GUS "Refer", "Refer with Caution", or Manually Underwritten

- May require a verification of rent or mortgage. Refer to the GUS Underwriting Findings Report.
- All housing payments entered in GUS must be adequately verified and documented.
- Applicants with no verifiable history of housing payments are not automatically ineligible. The underwriter must determine if the applicant has an acceptable credit history and meets program requirements.
- 1 rent or mortgage payment that was more than 30 days late in the last 12 months requires an underwriter approved credit exception.



CREDIT Review

HB-1-3555, Chapter 10, Attachment 10-A

Refer to GUS Findings Report.

Ensure documentation supports underwriting decision.

Incorrect data entries will render the underwriting recommendation as invalid.

ATTACHMENT 10-A

CREDIT MATRIX

Credit guidance: 3555.151(i)

CONSIDERATIONS FOR CREDIT ANALYSIS

ALL GUARANTEED LOANS:

If the lender is aware of any potential derogatory or contradictory information that is not part of the data submitted to GUS, or if there is any erroneous information in the data submitted to GUS, the loan must be manually downgraded.

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 Information application page is saved. If the automatically retrieved CAIVRS response is not an “A” response, 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. The CAIVRS response cannot be overwritten or revised within GUS. USDA will retrieve and confirm an “A” CAIVRS response when the loan file is processed in the Agency’s internal Guaranteed Loan System (GLS).
- If the CAIVRS system is unavailable at the time the lender initially completes the Borrower Information Application page, the user may manually retrieve the CAIVRS response by accessing the GUS Assets and Liabilities Page, under the CAIVRS Information section. Lenders can select the HUD CAIVRS hyperlink to access the CAIVRS website directly. The CAIVRS number retrieved in this manner must be manually entered into the applicable CAIVRS Number block.

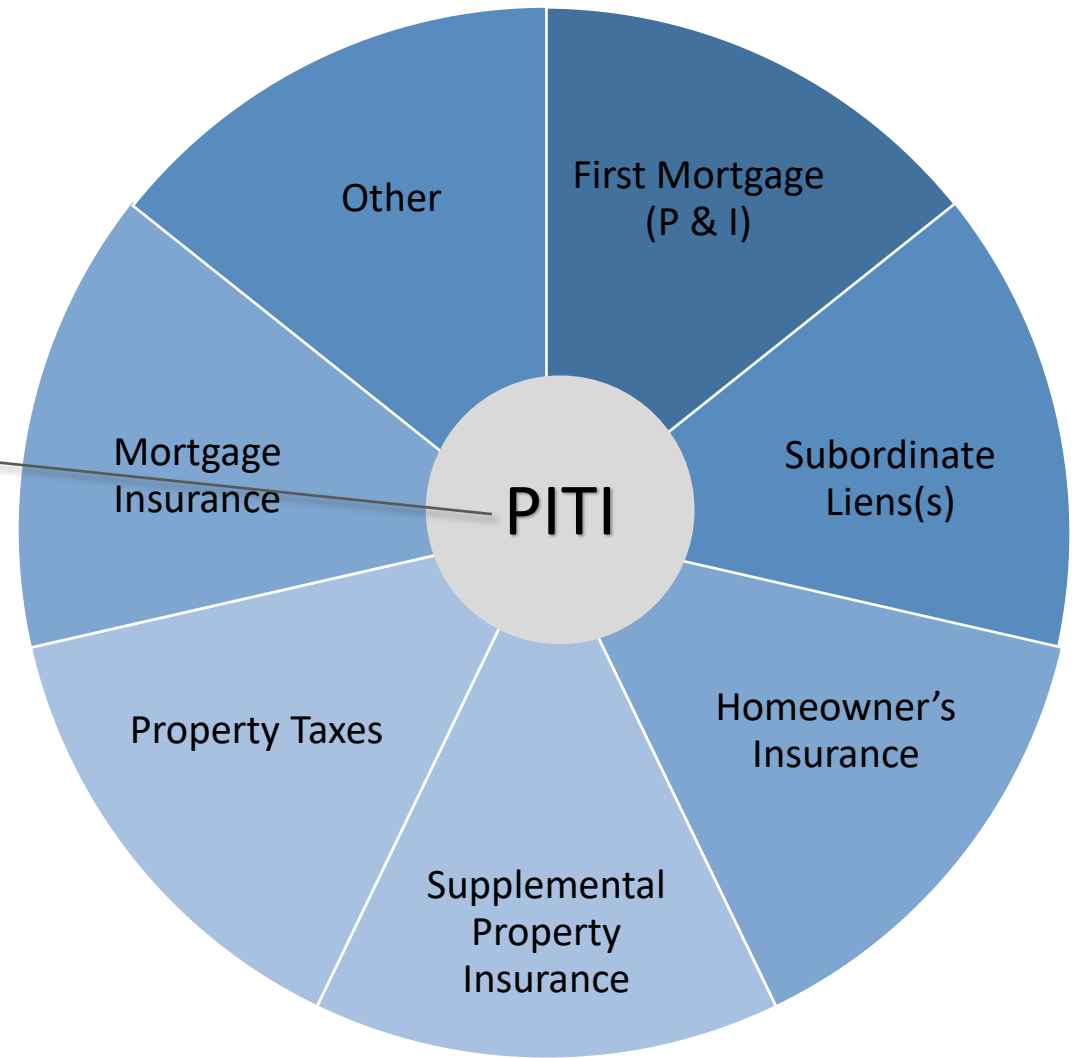


Ratio Analysis Overview



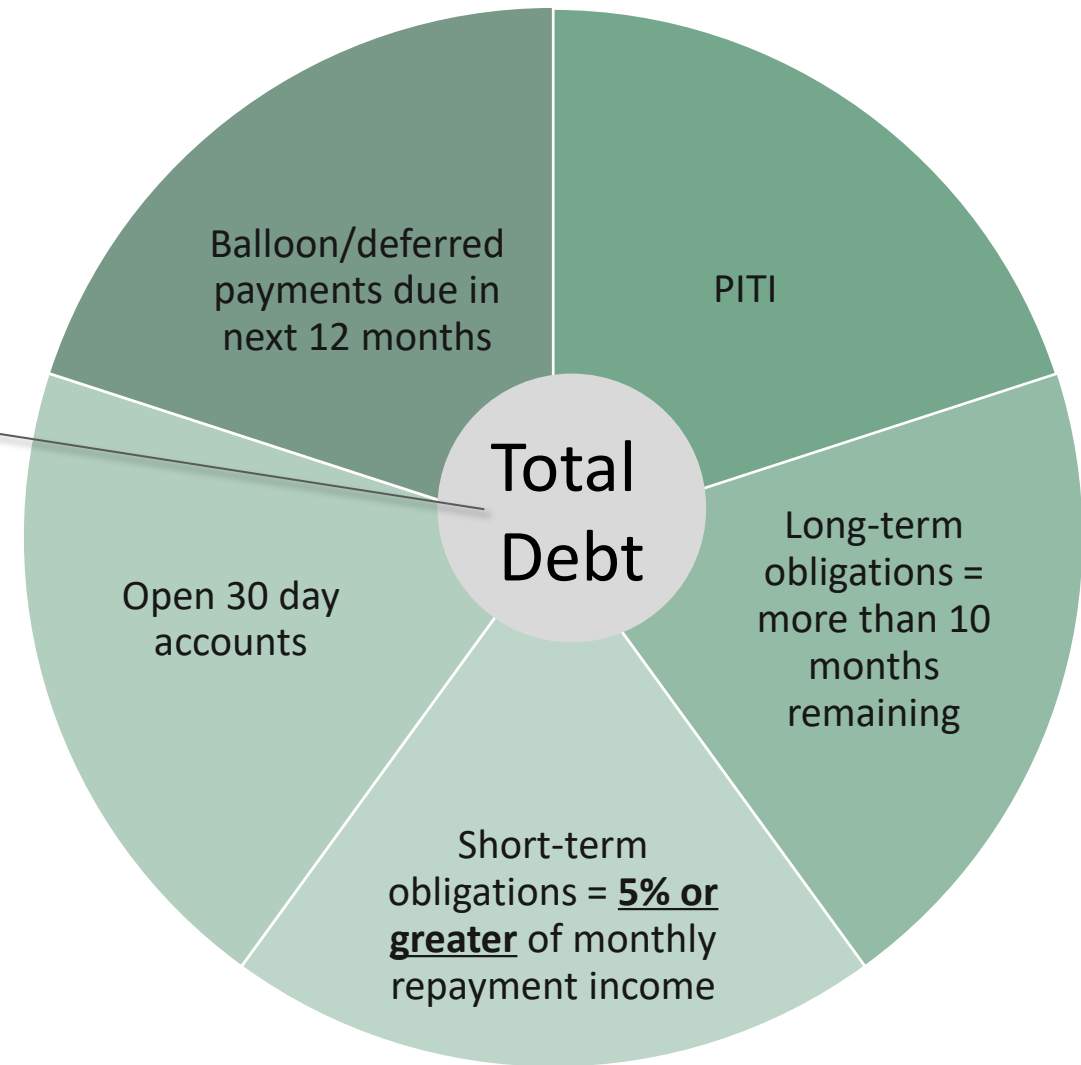
PITI

29%



Total Debt Ratio

41%



Installment Accounts

- Auto, personal, secured/unsecured loans, etc.

Accounts with
fixed payments



- **Include:** Monthly payment.
- **Omit:** 10 or less months remaining **IF** payment does not exceed **5%** of monthly repayment income.

Payment



- Installment debt may be paid down to 10 months or less.

Paying down debt



Revolving Accounts

- Credit cards, lines of credit, secured/unsecured loans, etc.

Revolving
accounts



- Monthly payment listed on credit report or creditor verification.
- 5% of balance if no payment is listed.

Payment:
Outstanding
balance



- No estimated payment required.
- Account is not required to be closed.

Payment: No
outstanding
balance



Student Loans

Regardless of the payment status, lenders must use:



Payment above “0”: Use amount on credit report or the actual documented payment.



Payment is “0”: Use 0.50 percent of the outstanding loan balance documented on the credit report or creditor verification.



Student loans in the applicant’s name alone but paid by another party remain the legal responsibility of the applicant.



“Forgiveness” plan/program remain the **legal responsibility** of the applicant until they are **released of liability** from the creditor.

Co-signed Obligations

- **Include:** Paid by applicant at any time during previous 12 months OR any late payments in past 12 months.
- **Exclude:** Another party has successfully made ALL payments during previous 12 months.

Payment



- Acceptable evidence may include canceled checks, money order receipts, or bank statements of the co-obligor.

Documentation



- **Exclude:** Evidence from creditor that they won't pursue collection against the applicant if other party defaults.

Creditor debt collection



Debts identified as “Individual” on credit report: Must include regardless of who is making the payment.

Court Ordered Debts

Child Support, Alimony, Garnishments, Etc.

- Must include unless the applicant has a release of liability.

Release of liability



- **Include:** Monthly payment.
- **Omit:** 10 or less months remaining **IF** payment does not exceed **5%** of monthly repayment income.

Payment



- Lender will manually enter as an “Other” liability.
- Specify type of obligation.
- Confirm repayment agreement is current.

GUS transactions



Mortgages

Rental Property

(Rental income: “**Repayment**” Only count if received for 24 months or more; “**Annual**” Always include.)

Credit report late payment (last 12 months)

=

Count full mortgage liability & all associated costs

No Release of Liability

Borrower remains on Promissory Note.

Exclude only if no late payments in last 12 months.

Documentation must support the remaining party/new owner made the payments.

Divorce

Obtain copies of legal separation / divorce documents.

Exclude only if no late payments in last 12 months.

Guidance does not specify who must have made the payments.

Business Debts

- **Include:** Paid from personal account.
- **Exclude:** If evidenced it's paid through a business account.

Payment



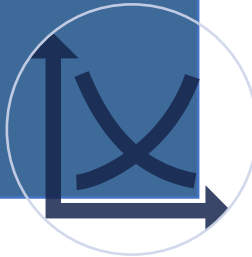
- Acceptable evidence includes canceled checks or bank statements from a business account for the previous 12 months.

Documentation



- Payments paid by the business must be included on the cash flow analysis and/or profit and loss statement, when applicable.

Business statements



Non-Purchasing Spouse Debts

Community Property States

- **Include:** Debts of a non-purchasing spouse unless excluded by state law.

Payment



- Lender must cite the specific state statute in the permanent case file.

Documentation



- Approved lenders are responsible to confirm state laws are met.

State laws



Community property states: Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington, and Wisconsin



Debt Ratio Waivers

Debt Ratio Waivers

Purchase Transactions – File Types

GUS “Accept”
and “Accept Full
Documentation”

Do **NOT** require debt ratio
waivers.

File
Type

GUS “Refer”,
“Refer with
Caution” and
Loans not
supported by
GUS

Lender must document eligible
compensating factors to support
a debt ratio waiver.

Debt Ratio Waivers

Purchase Transactions – Required Conditions

1

PITI ratio
cannot exceed
32%

2

Total debt ratio
cannot exceed
44%

3

Validated credit
score of ALL
applicants must
be 680 or greater

4

1 acceptable
compensating
factor must be
present

Debt Ratio Waivers

Purchase Transactions – Compensating Factors

Accumulated Savings or Cash Reserves Available Post Loan Closing

- Equal to or greater than 3 months of PITI payments. Cash on hand is not eligible.

Employment

- ALL applicants have been continuously employed with their current primary employer for a minimum of 2 years. Social Security benefits or retirement income may be considered. Self-employment is not eligible.

Proposed PITI

- Does not exceed the applicant's current verified housing expense by more than \$100 or 5%, whichever is less, for the 12-month period preceding loan application. No more than one 30 day late allowed.

Energy Efficient Home

- Subject property is an energy efficient home based on the International Energy Conservation Code (IECC) standards. Lender is responsible for verifying and documenting evidence in permanent loan file.

Debt Ratio Waivers

Refinance Transactions – File Types

GUS “Accept”
and “Accept Full
Documentation”

Do **NOT** require debt ratio
waivers.

Supporting documentation
must be submitted to the
agency.

GUS “Refer”,
“Refer with
Caution” and
Loans not
supported by
GUS

“Streamlined-
Assist”

Do not require debt ratio
calculations, therefore, no
debt ratio waiver is required.

Debt Ratio Waivers

Refinance Transactions – Compensating Factors

Credit Score

- Validated credit score of 680 or higher for all applicants.

Accumulated Savings or Cash Reserves Available Post Loan Closing

- Equal to or greater than 3 months of PITI payments. Cash on hand is not eligible.

Employment

- Continuous employment with the current primary employer.

Proposed PITI

- Does not exceed the borrower's current verified mortgage payment by more than \$100 or 5%, whichever is less, for the 12-month period preceding loan application.

Energy Efficient Home

- Subject property is an energy efficient home based on the International Energy Conservation Code (IECC) standards. Lender is responsible for verifying and documenting evidence in permanent loan file. (*HB-1-3555, Chapter 11*)

RATIO ANALYSIS Review

HB-1-3555, Chapter 11

Refer to GUS Findings Report.

Ensure documentation supports underwriting decision.

Incorrect data entries will render the underwriting recommendation as invalid.

HB-1-3555

CHAPTER 11: RATIO ANALYSIS

11.1 INTRODUCTION

Ratio calculations are used to determine if the applicants' repayment income can reasonably be expected to meet the anticipated monthly housing expense and total monthly obligations involved in homeownership. The Agency has established standards for principal, interest, taxes, and insurance (PITI) and total debt (TD) ratios; however, there is flexibility to apply these standards when valid compensating factors are present.

11.2 THE RATIOS [7 CFR 3555.151(h)(1)(i)]

Ratios are calculated by utilizing the repayment income, as determined by the lender in Chapter 9, Section 2 of this Handbook. To qualify for a guarantee, borrowers must meet the Agency's standards for both the PITI and TD ratios.

A. The PITI Ratio

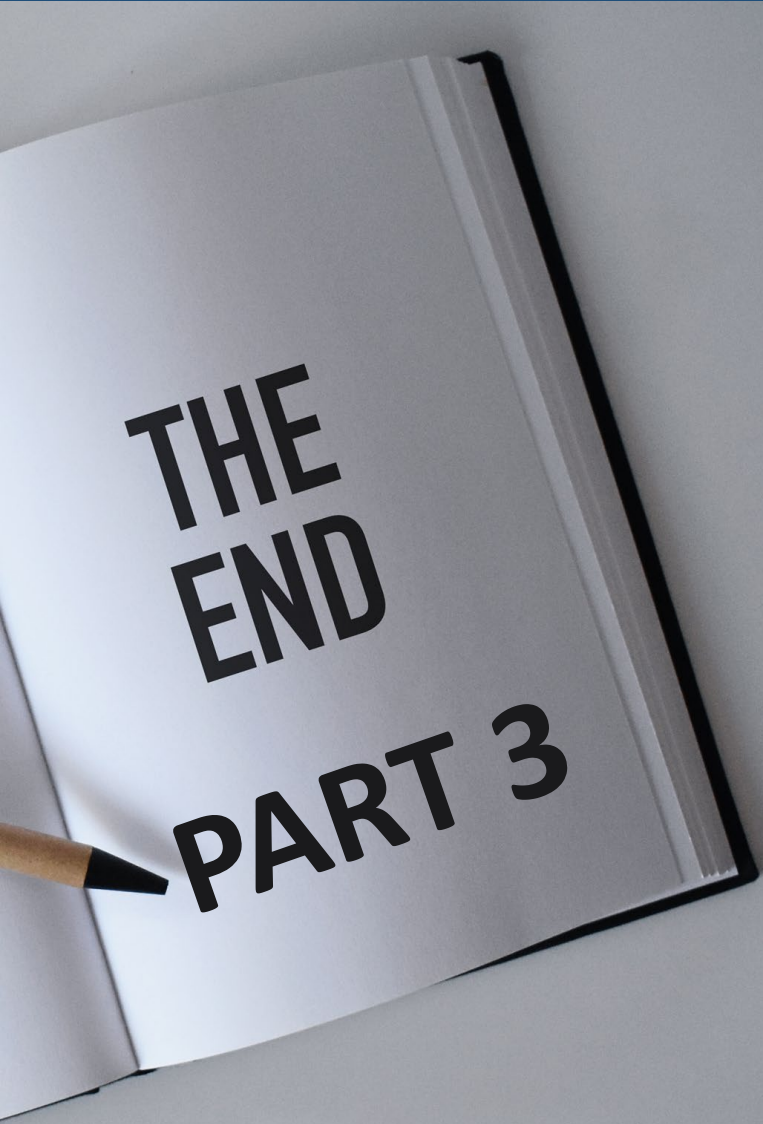
Applicants are considered to have repayment ability if their proposed monthly housing expense does not exceed 29 percent of their repayment income. Monthly housing expenses include:

- First Mortgage (P&I);
- Subordinate Lien(s);
- Homeowner's Insurance;
- Supplemental Property Insurance;
- Property Taxes;
- Mortgage Insurance (First year annual fee monthly amount);
- Association/Project Dues (Condo, Co-Op, PUD); and
- Other.

B. The Total Debt Ratio

Applicants are considered to have repayment ability when their total debts do not exceed 41 percent of their repayment income.

Thank you for completing Part 3.



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