

Top Tips for Confident Credit Underwriting

Single Family Housing
Guaranteed Loan Program





AGENDA

- 1 Navigating the Credit Review
- 2 Credit Score Validation
- 3 Significant Adverse Credit
- 4 Credit Considerations
- 5 Credit Exceptions
- 6 Non-Traditional Credit
- 7 Toolkit



Navigating the Credit Review



Have a Scenario or Policy Question?

Reach out to our Scenario Desk!

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833-314-0168, ext. 4



Navigating the Credit Review



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HB-1-3555 Attachment 10-A Page 1 of 20
ATTACHMENT 10-A
CREDIT MATRIX
Credit guidance: 3555.151(i)
CONSIDERATIONS FOR CREDIT ANALYSIS
<u>ALL GUARANTEED LOANS:</u> 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.
<u>CREDIT ALERT VERIFICATION REPORTING SYSTEM (CAIVRS)</u> 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: <ul style="list-style-type: none">• 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.
<u>CAIVRS in GUS:</u> <ul style="list-style-type: none">• 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.
(03-09-16) SPECIAL PN Revised (05-06-24) PN 613



Creditworthiness



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Ability & willingness to meet obligations

Verifiable credit history

Adverse credit

Guaranteed Underwriting System
(GUS) Recommendation

HB-1-3555
Attachment 10-A
Page 1 of 20

ATTACHMENT 10-A

CREDIT MATRIX

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Guidelines & Resources



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Chapter 10

USDA LINC Training & Resource
Library

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HB-1-3555
Attachment 10-A
Page 1 of 20

ATTACHMENT 10-A

CREDIT MATRIX

Credit guidance: 3555.151(i)

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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:

- At least one applicant whose income or assets are used for qualification must have at least 2 historical trade line references.

No eligible tradelines on the credit report:

- Non-traditional credit must be verified.

Credit Score Validation



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Validate Credit Score:

GUS Refer, Refer with Caution, and Manually Underwritten files.

1 applicant whose income and/or assets is used must have a validated credit score.

Must have 2 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.

Underwriter must still analyze credit history.

Credit Score Validation



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Eligible
tradelines to
validate the
credit score.

May be open, closed, and/or paid in full, when a payment history is reflected:

Loans (secured/unsecured)

Revolving accounts

installment loans

Credit cards

Collections

Charge-off accounts



TRIVIA TIME



Question



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An applicant has 2 credit scores, with the third credit score frozen.

Does the third score need to be unfrozen?



Answer



Have a Scenario or Policy Question?

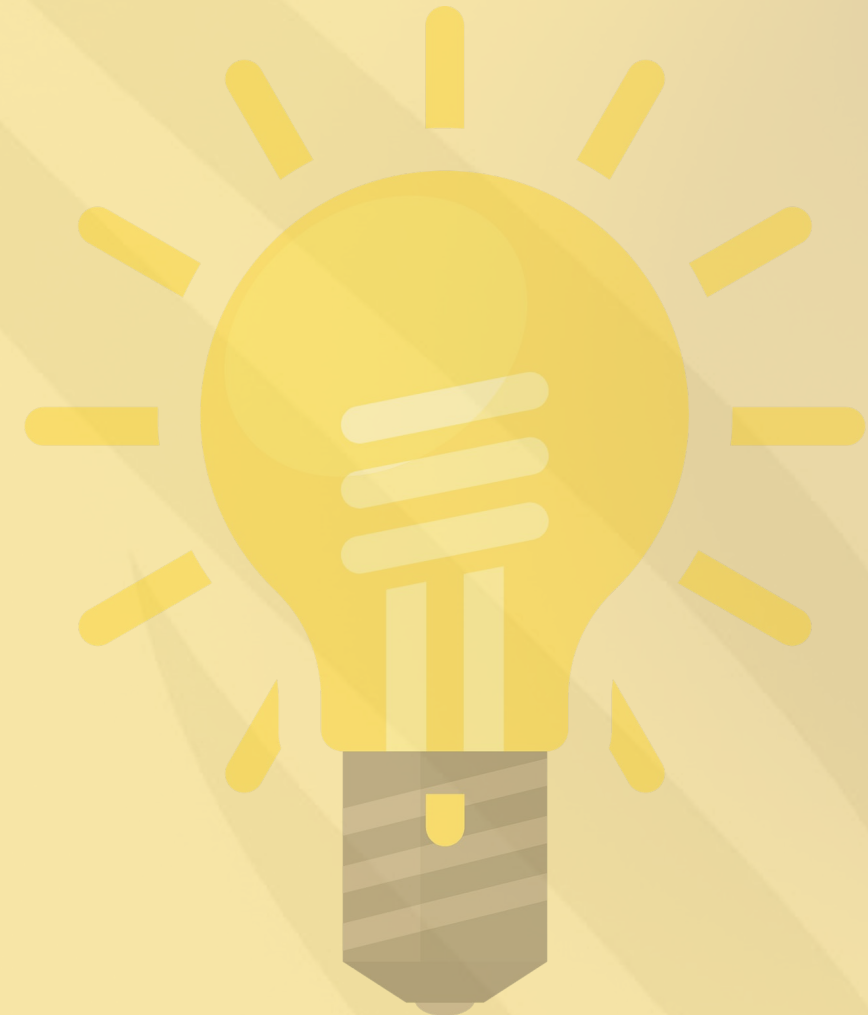
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ANSWER: Yes

Applicants must ensure credit data frozen at any credit repository is made available.



Question



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On a GUS Refer, the applicant only has one credit score. However, the applicant has enough tradelines on their credit report to meet the credit score validation requirements.

Are non-traditional tradelines also required?



Answer



Have a Scenario or Policy Question?

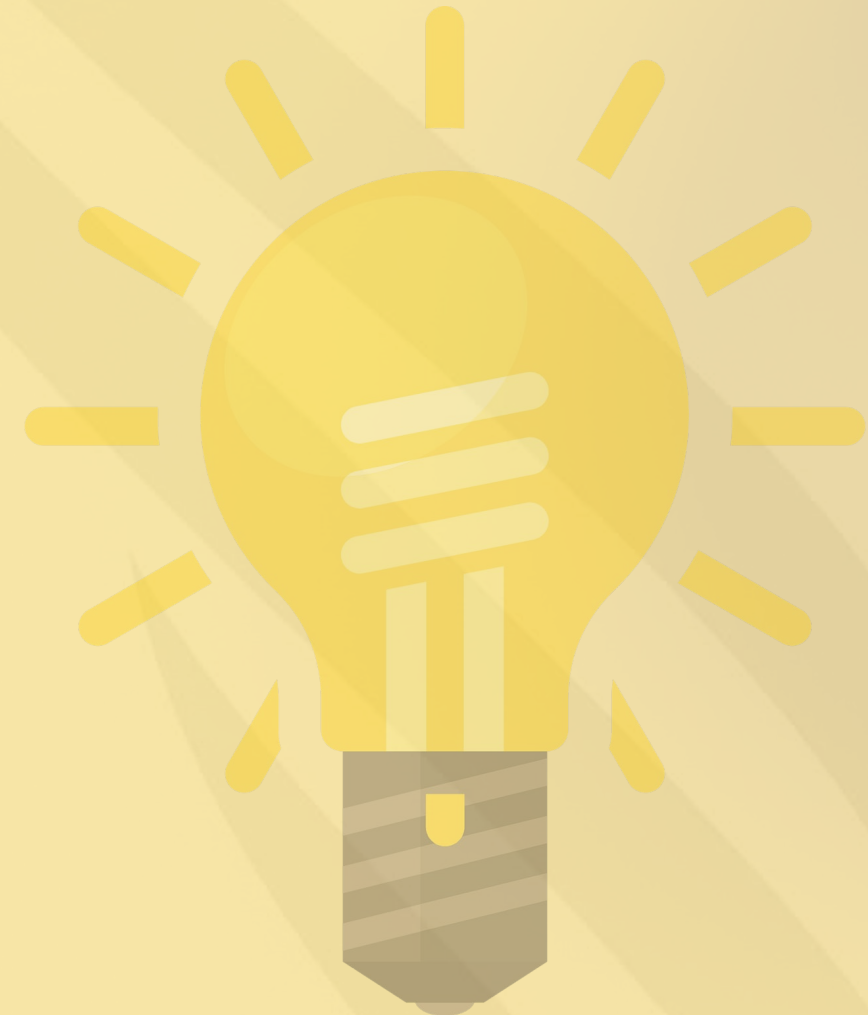
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ANSWER: No

Only one credit score is required as long as the credit score has been validated.



Question



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On a GUS Refer loan, there are 2 applicants on the loan and the primary applicant has a credit score and meets the requirements for a validated credit score. The co-applicant does not meet the validation criteria.

Can I proceed?

Answer



Have a Scenario or Policy Question?

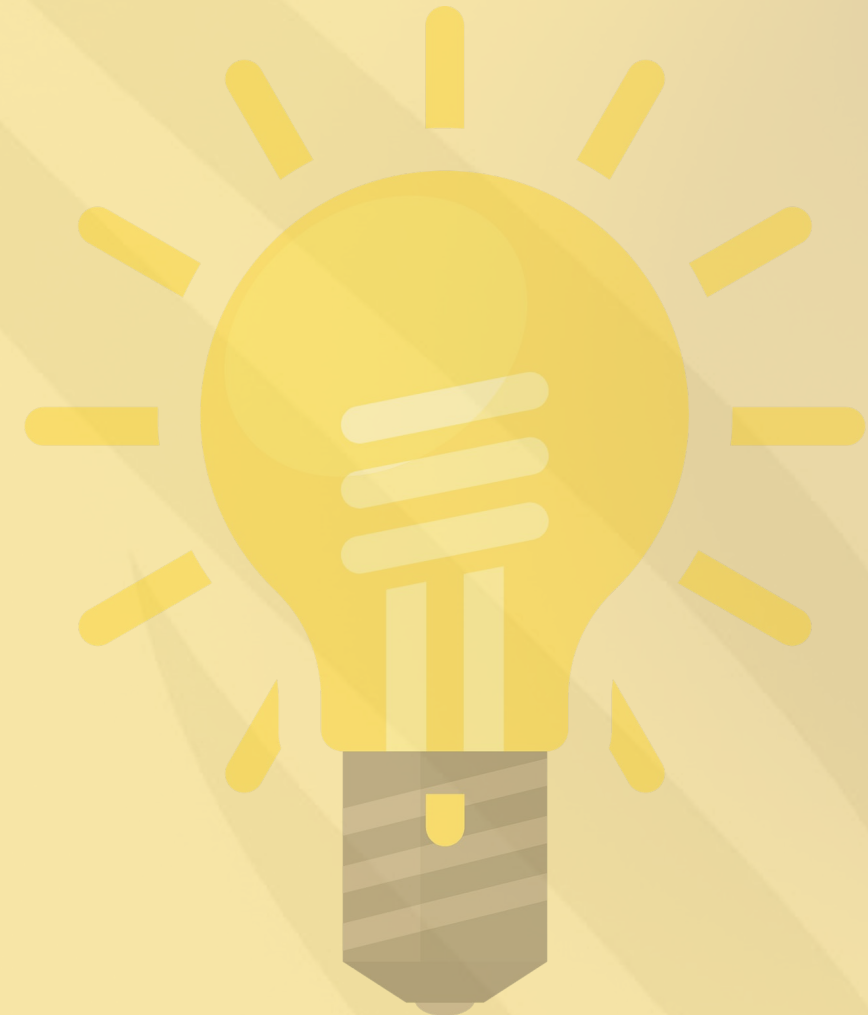
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ANSWER: Maybe

- At least one applicant must have a validated credit score.
- The other applicant(s) are not held to specific tradeline requirements.
- However, lender underwriter discretion may require additional verification.



Question



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An applicant has 2 auto loans reporting for 8 months and 4 months respectively.

Can we use the aggregate of that to meet the requirement of an account reporting for 12 months?



Answer



Have a Scenario or Policy Question?

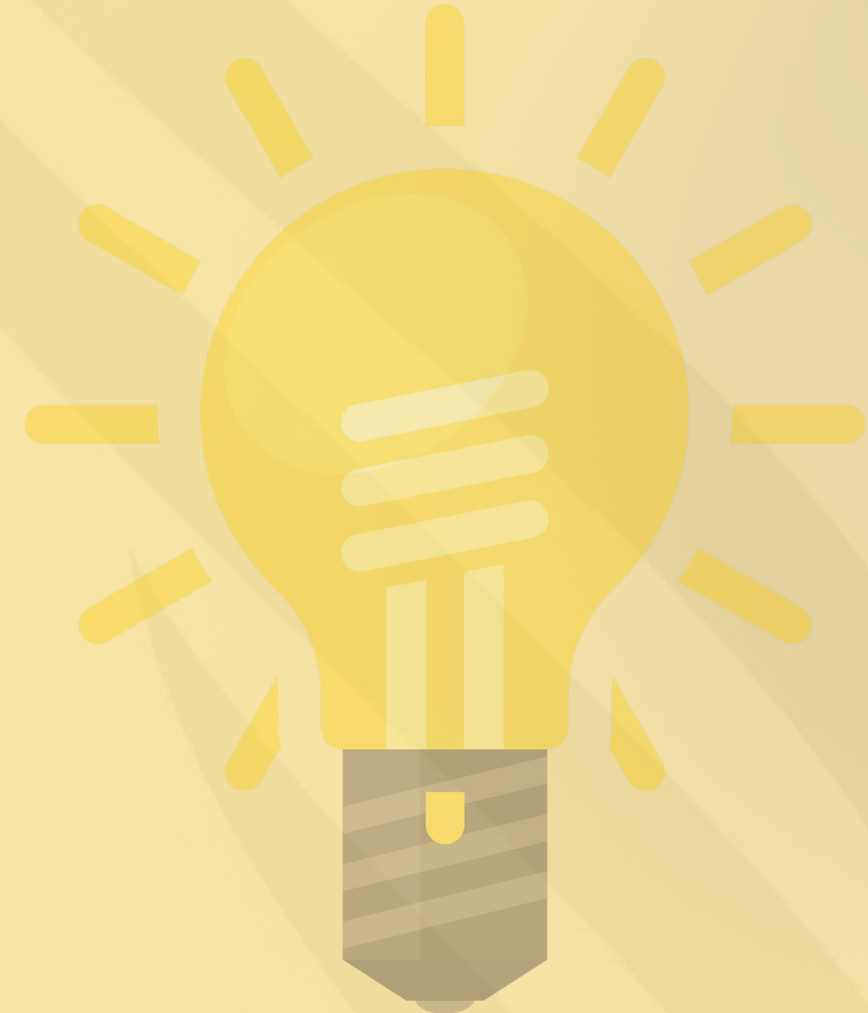
Reach out to our Scenario Desk!

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ANSWER: No

- You cannot use the aggregate of 2 accounts to report for 12 months.
- A tradeline must have been opened for a full 12 months to be an eligible tradeline for the purpose of validating a credit score.



Non-Traditional Credit

NON-TRADITIONAL Credit



How many tradelines are required?

Refer to your GUS Underwriting Recommendation & GUS Findings Report.

No Present Housing Expense:

- 3 tradelines

Present Housing Expense:

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

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.



NON-TRADITIONAL Credit



What documentation is required?

Refer to your GUS Underwriting Recommendation & GUS Findings Report.

A Non-Traditional Mortgage Credit Report (NTMCR).

Self-Reported tradelines on a traditional credit report.

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.



TRIVIA TIME



Question



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**Can overdraft protection
attached to a checking
account be used as a
non-traditional
tradeline?**



Answer



Have a Scenario or Policy Question?

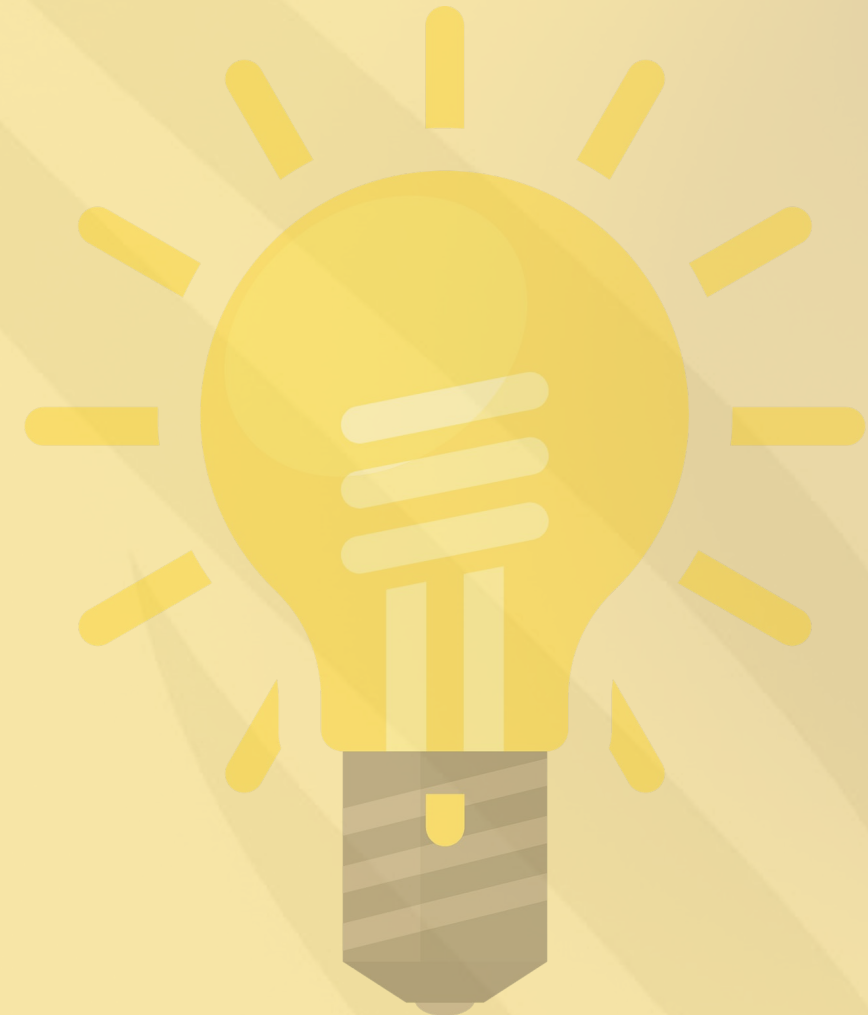
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ANSWER: No

Overdraft protection is not a credit obligation and is not used as an alternative trade line.



Question



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**Is repayment on a 401K
loan considered an
acceptable non-traditional
credit tradeline?**



Answer



Have a Scenario or Policy Question?

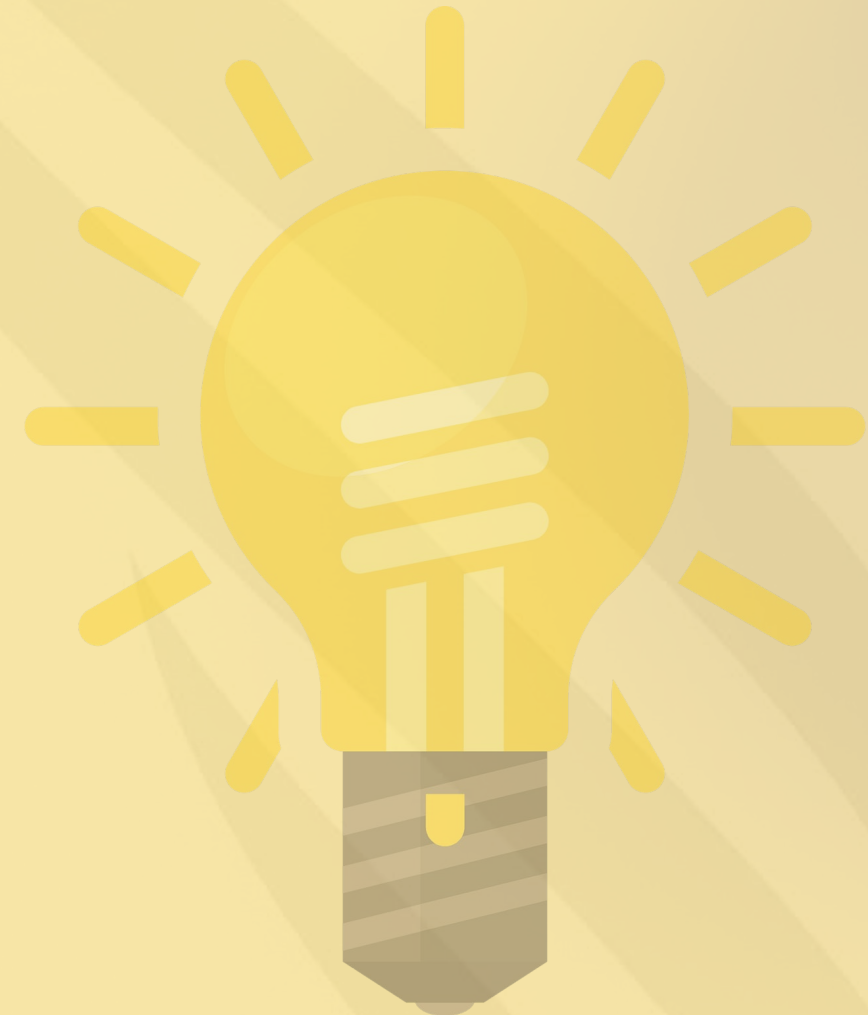
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ANSWER: No

401K loans are considered personal funds, thus not an acceptable source for non-traditional tradelines.



Question



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Can my borrower use verifications from two different addresses to combine 12-months rental history for non-traditional credit?



Answer



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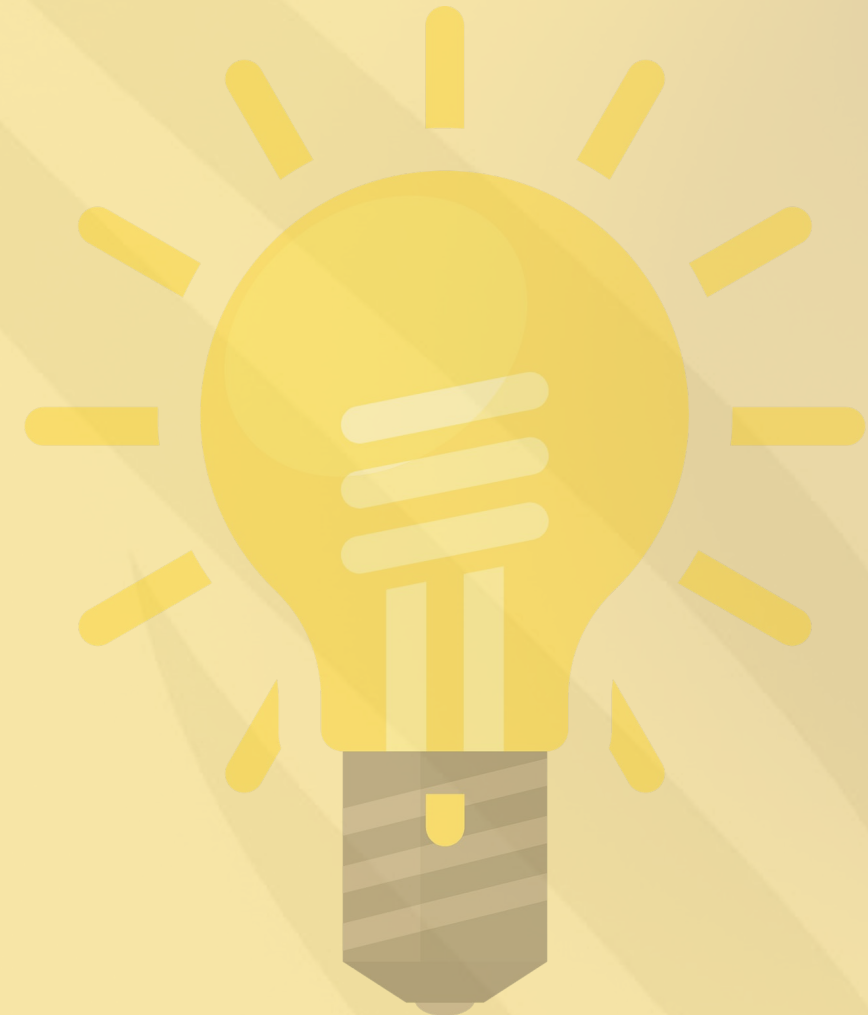
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833-314-0168, ext. 4

ANSWER: Yes

As long as the combined 12-month rental history does not have any gaps, it can be used for non-traditional credit.

This guidance is specific to rental history only.





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



Have a Scenario or Policy Question?

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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.

Delinquent Child Support



Have a Scenario or Policy Question?

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Is it subject to
administrative
offset?

Delinquent child support is not a Federal debt.

It is not reported to CAIVRS.

A clear CAIVRS alone would not provide evidence there is not an administrative offset in place.

Delinquent Child Support



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Was an administrative offset referral made by the state to the Department of Treasury?

Lender must verify & document it is NOT an administrative offset.

Contact state's office of child support enforcement if needed.

Document the loan file with:
Verification an applicant with delinquent child support is not subject to administrative offset.

This can be accomplished by: *Obtaining verification in writing from the child support enforcement Agency.*

If obtaining a written verification is not possible:
Document the loan file of the verbal conversation held.



TRIVIA TIME



Question



Have a Scenario or Policy Question?

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**An applicant has a clear
CAIVRS result but has had a
wage garnishment for over
3 years on a US Education
loan.**

Is the applicant eligible
since the CAIVRS was clear?



Answer



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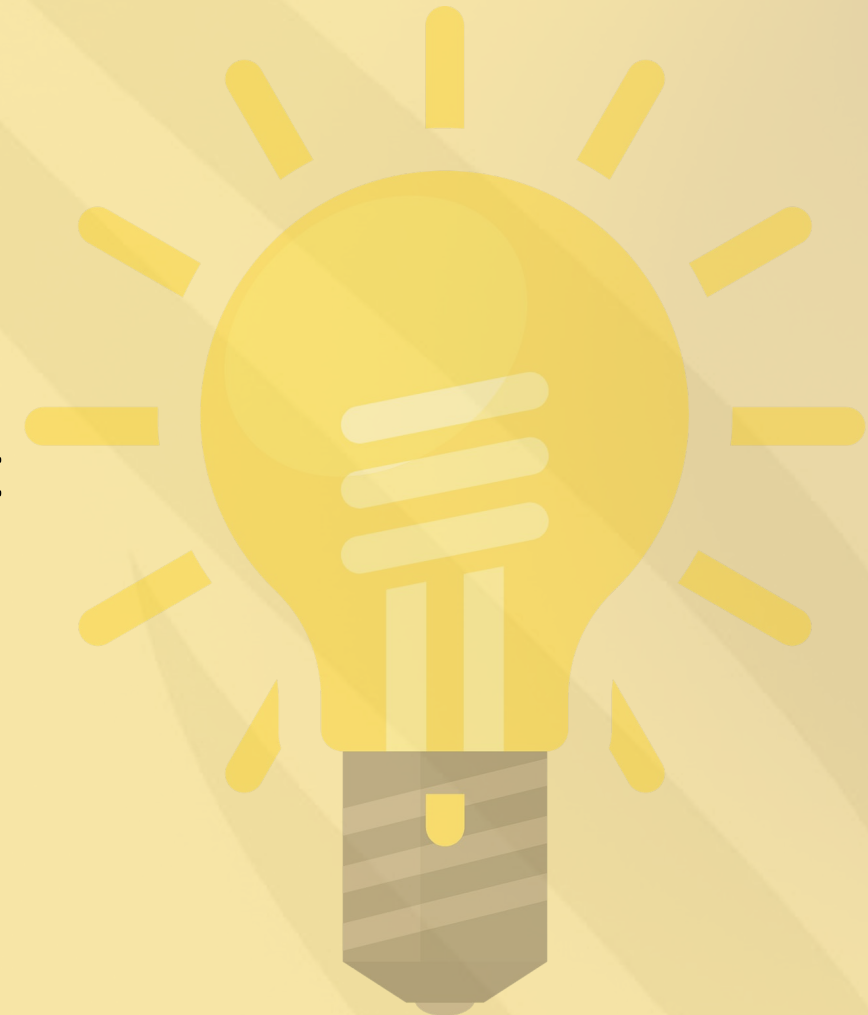
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833-314-0168, ext. 4

ANSWER: No

Even when the applicant's CAIVRS is clear, if the credit indicates there is a delinquent federal debt, the applicant is ineligible unless:

- the debt is paid in full, or
- a release of liability is documented.



Question



Have a Scenario or Policy Question?

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The GUS underwriting report indicates that CAIVRS has identified the applicant has a delinquent Federal debt, however we have documentation that this is no longer in the applicant's name.

Is this documentation sufficient to proceed?

Answer



Have a Scenario or Policy Question?

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ANSWER: No

- An “A” CAIVRS response is the only acceptable result for an applicant to be eligible.
- The applicant will need to contact the federal agency involved to clear it.
- A CAIVRS response of “A” will need to be obtained outside of GUS and uploaded to GUS as part of the complete loan application.
- GUS does not allow for additional CAIVRS requests once a result is obtained.



Question



Have a Scenario or Policy Question?

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An applicant with delinquent state taxes is ineligible for a USDA loan until the debt is paid in full or they are released of liability?

True or False



Answer



Have a Scenario or Policy Question?

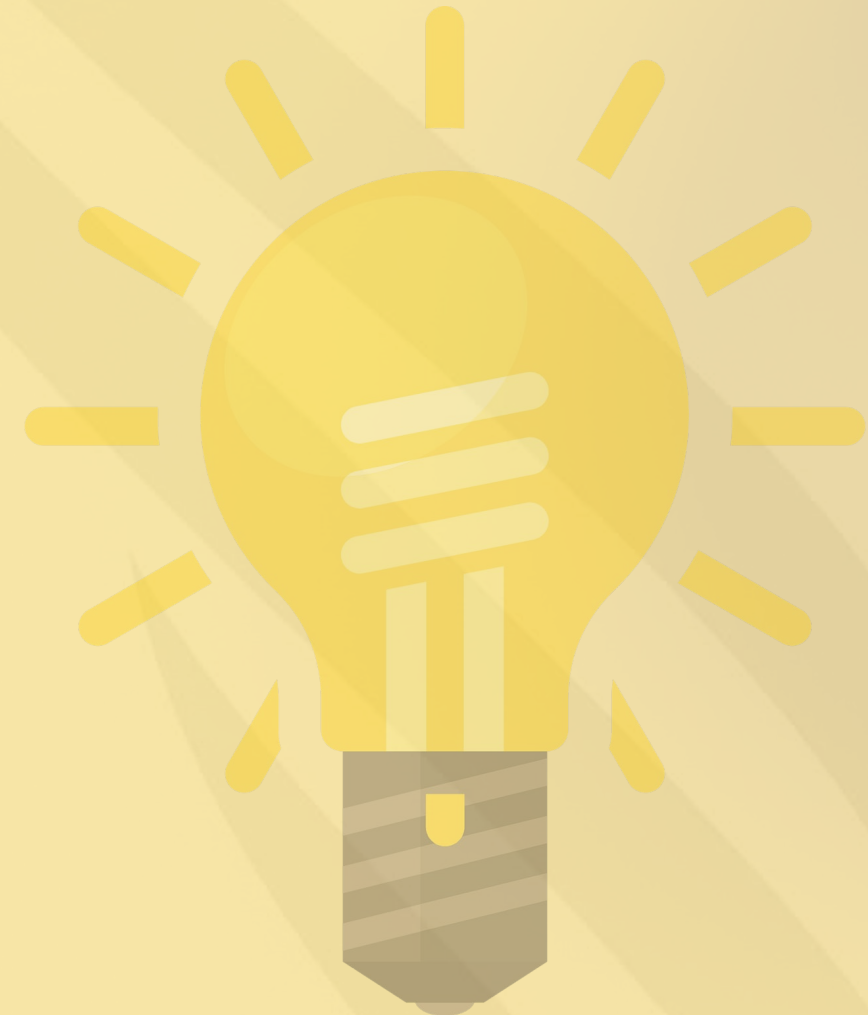
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ANSWER: False

- Delinquent state taxes should be treated as an unpaid debt/collection.
- The approved lender should evaluate whether the debt poses a threat to the first mortgage lien and if it is likely to have an adverse impact on the equity or applicant's repayment ability.





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.
(USDA will make eligibility determination.)

Credit Exceptions



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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.



TRIVIA TIME



Question



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**An applicant previously
had a USDA foreclosure.**

Are they eligible for a new
loan through USDA?



Answer



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ANSWER: Maybe

- Attachment 10-A outlines the documentation that must be submitted as part of the fully underwritten loan file when a previous Agency loss has occurred within 7 years prior to submission to the Agency.
- Rural Development will review the information and determine the applicant's eligibility.
- There is no pre-approval process available, the determination will be made after reviewing the complete application package.

Question



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**Will Rural Development
guarantee a loan where the
applicant has less than 3
years from bankruptcy?**



Answer



Have a Scenario or Policy Question?

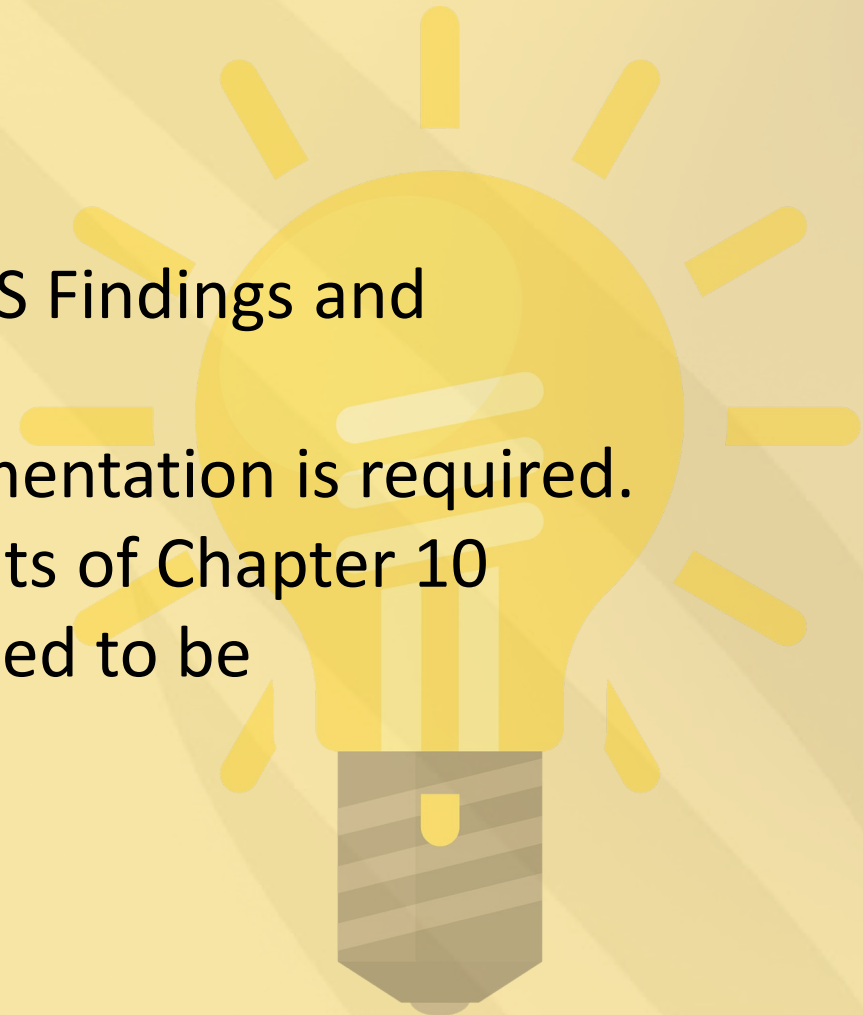
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ANSWER: Maybe

- A guarantee is possible depending on the GUS Findings and overall file documentation.
- If a GUS Accept is obtained, no further documentation is required.
- If the results are a GUS Refer, the requirements of Chapter 10 would apply, and a credit exception would need to be documented by the underwriter.



Question



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**Does a Refer
recommendation in GUS
automatically require a
credit exception?**



Answer



Have a Scenario or Policy Question?

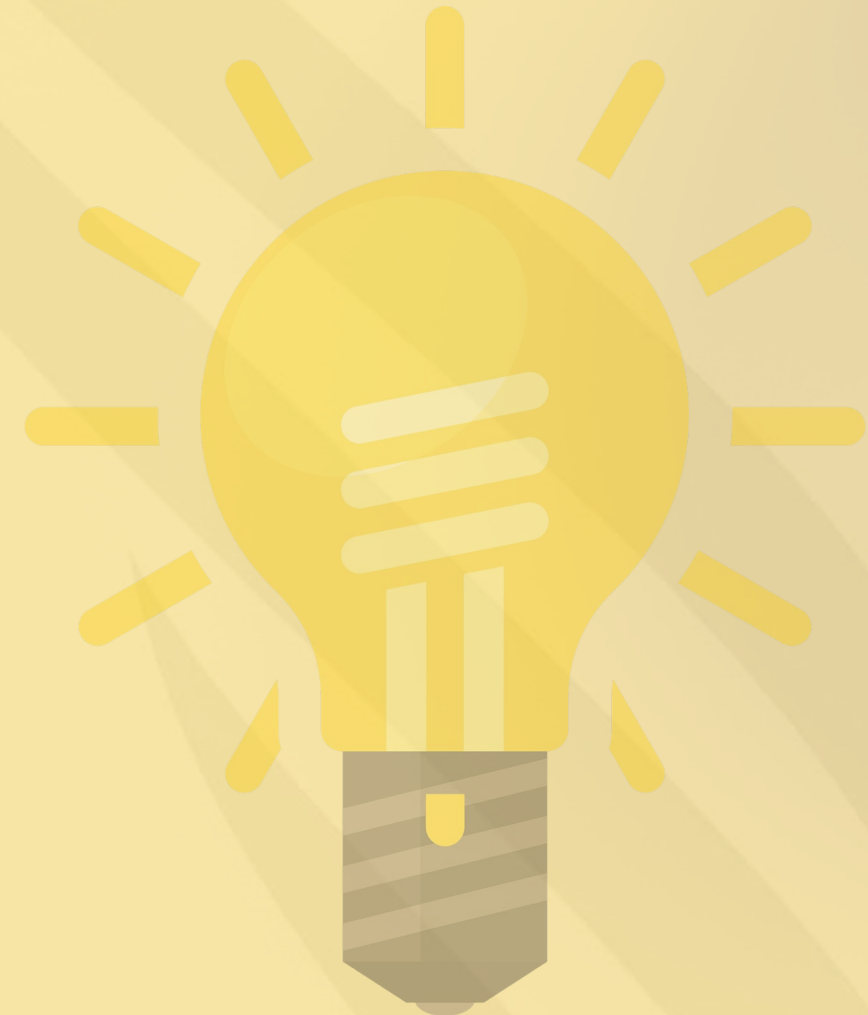
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ANSWER: No

A credit exception is only required if the refer is due to a credit issue or if the GUS findings require a credit exception to be documented.



Question



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One of the compensating factors for a ratio waiver on a refinance transaction states, “Continuous employment with the current primary employer”.

What amount of time is required to use this compensating factor?



Answer



Have a Scenario or Policy Question?

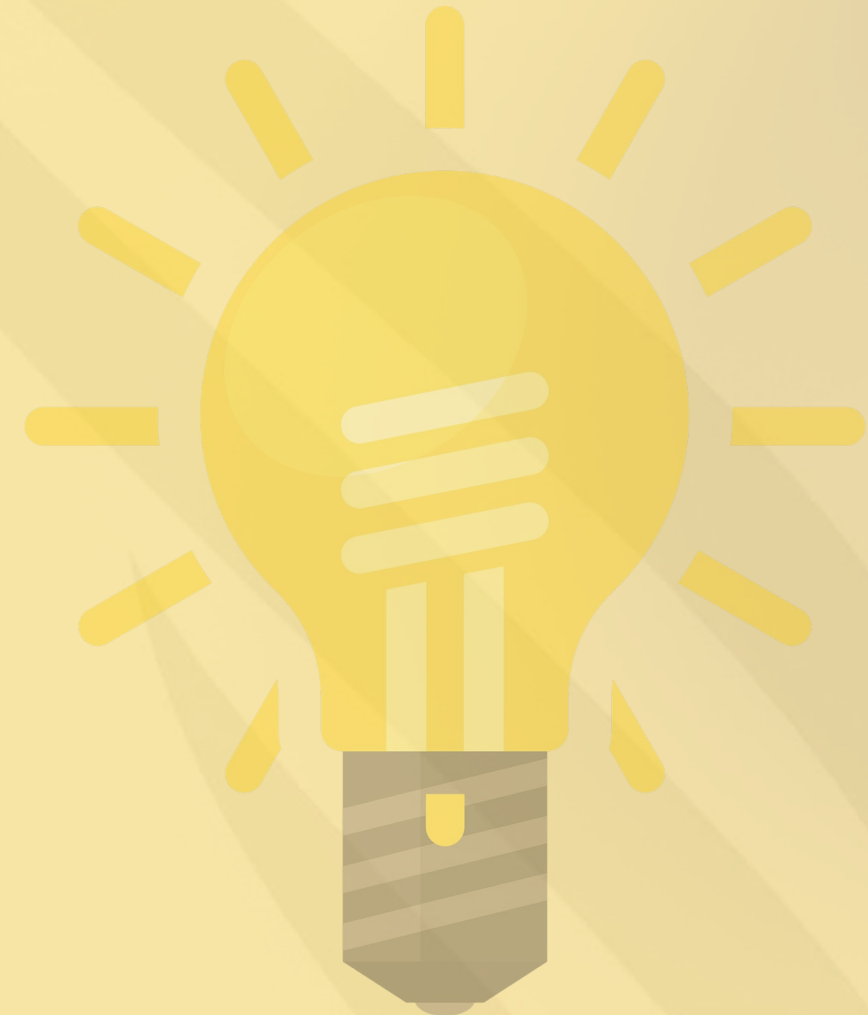
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ANSWER: Underwriter discretion

- The Agency does not prescribe a minimum history in order to apply this compensating factor to the credit analysis for refinance loans.
- The underwriter is advised to use prudent judgement and sound business practices when requesting a ratio waiver.





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.

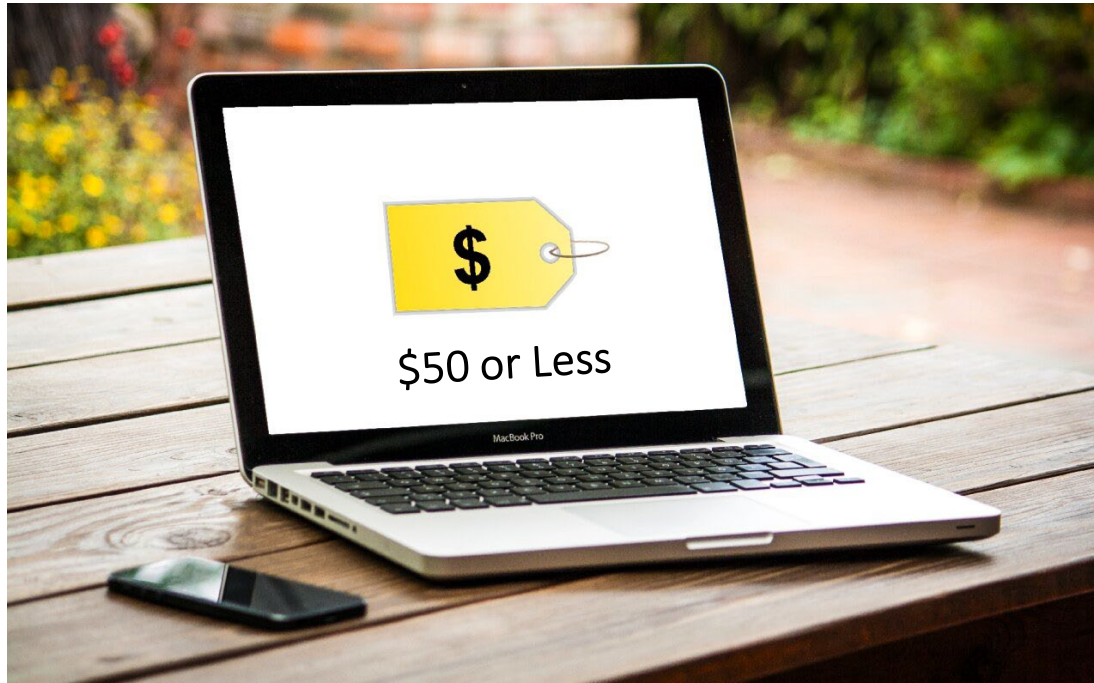
All open collection accounts must be listed on the GUS 'Liabilities' page.

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

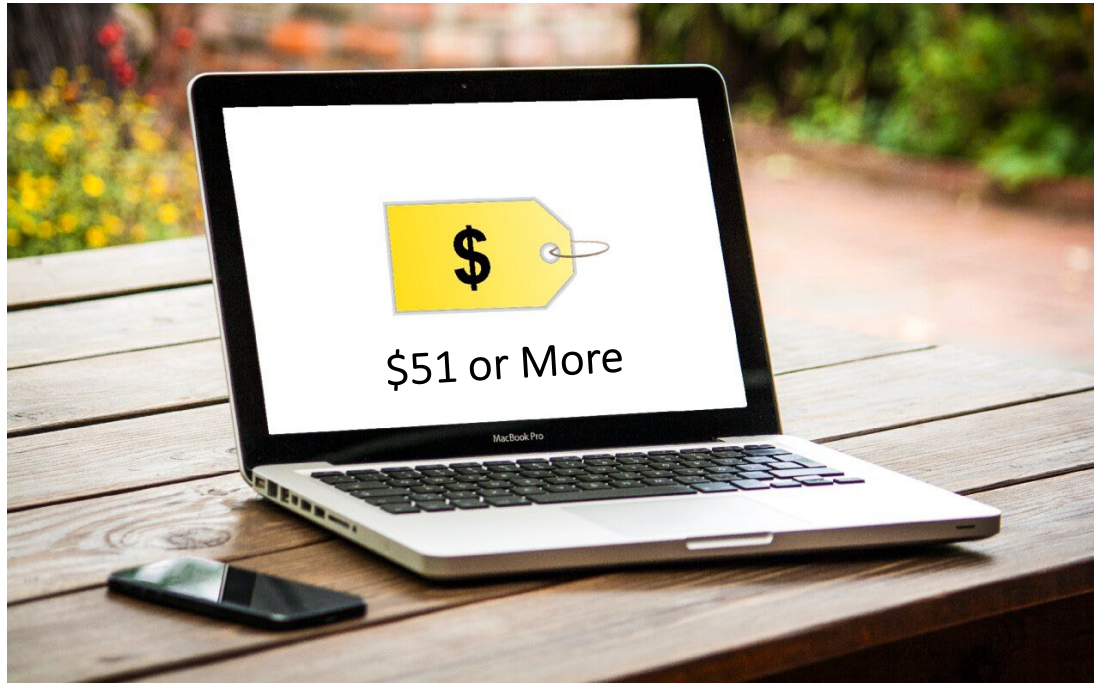
**Lender may retain the issued
Conditional Commitment.**

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.

Non-Purchasing Spouse Debts



Have a Scenario or Policy Question?

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Guidelines

Follow applicable community property state (CPS) lending laws.

The credit history of the NPS is not a reason to deny a loan application.

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

GUS

Credit report for the NPS must be obtained outside of GUS and uploaded along with the complete loan submission.

NPS debts will be manually entered in GUS.
Retain documentation in permanent file.
(GUS recommendation NOT required to be downgraded.)

Lenders will identify the NPS debts by selecting “Other” as the Account Type Description and entering “NPS debt” in the pop-up box.

RENT History



When must it be obtained?

Refer to your GUS Underwriting Recommendation & GUS Findings Report

GUS “Accept” File:

- No verification of rent or mortgage required.

GUS “Refer”, “Refer with Caution”, or Manually Underwritten:

- May require a verification of rent or mortgage.
- Applicable for credit scores less than 680 when rental history is indicated.
- Refer to GUS Underwriting Findings Report.



Lender Toolkit





CREDIT REVIEW Reminders

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.

HB-1-3555
Attachment 10-A
Page 1 of 20

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.

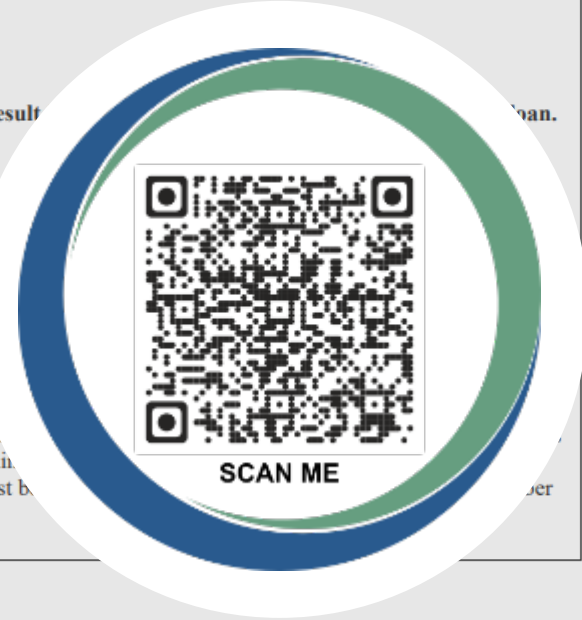
CAIVRS may return the following results:

- 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

CAIVRS in GUS:

- GUS will automatically retrieve the Information application page is saved. If the lender receives a “A” response, the lender must obtain this documentation must be uploaded to the GUS application to USDA. The USDA will retrieve and confirm the Agency’s internal Guaranteed Loan.
- If the CAIVRS system is unavailable, the lender must access the Information Application page, the lender can select the HUD CAIVRS hyperlink and enter the number retrieved in this manner must be blocked.



(03-09-16) SPECIAL PN
Revised (05-06-24) PN 613



USDA LINC Training & Resource Library

Your One Stop Shop! Check out the new look!

<https://www.rd.usda.gov/resources/usda-linc-training-resource-library>

Save it as a favorite.

Access HB-1-3555, policy resources, GUS user guides and training, loan closing user guide, loan servicing resources, and more.

Sign up for GovDelivery notifications.

USDA LINC Training & Resource Library

HOME RESOURCES

LINC Training Library

- Guaranteed Underwriting System (GUS)
- Lender Approval
- Single Family Housing GLP Policy Desk
- Lender Training
- Loan Closing
- Loan Origination
- Loan Servicing
- GUS Lender Test Environment (LTE)
- SFHGLP System Access and Security Guide
- Lender Training Schedule
- Loan Processing
- LINC Contact and Resources

English

Loan Status

We are currently reviewing new loan applications and conditions received on or before 12-9-24.

Lender Approval and Recertification

Lender Training

Loan Origination

Loan Processing

Loan Closing

Loan Servicing

Policy Desk

Guaranteed Underwriting System (GUS)

Contact Us


Find contact information and resources to help you with Single Family Housing Guaranteed Loan Program questions.

View Contact Information

GovDelivery Update

An archive of previously the latest information /

The Policy Desk: Pr 11/12/2024 07:27



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HB-1-3555 Resource

We're here to help.

<https://www.rd.usda.gov/resources/directives/handbooks#hb13555>

Save it as a favorite.

Use Ctrl-F to find answers quickly.

Check back for updates.

HB-1-3555 SFH Guaranteed Loan Program Technical Handbook

Consolidated version (large document may take long to load)

Table of Contents

Chapter 1	Overview
Chapter 2	Record Retention
Chapter 3	Lender Approval
Chapter 4	Lender Responsibilities
Chapter 5	Origination and Underwriting Overview
Chapter 6	Loan Purposes
Chapter 7	Loan Terms and Conditions
Chapter 8	Applicant Characteristics
Chapter 9	Income Analysis
Chapter 10	Credit Analysis
Chapter 11	Ratio Analysis
Chapter 12	Property and Appraisal P
Chapter 13	Special Property T
Chapter 14	Funding Prior
Chapter 15	Submitting
Chapter 16	Closing t
Chapter 17	Regular
Chapter 18	Servicir Problem
Chapter 19	Loss Cla



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FAQ Resource


We're here to help.

<https://www.rd.usda.gov/media/file/download/rd-sfh-faqloanorigination.pdf>

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Frequently Asked Questions (FAQ)



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HELP Contacts

We're here to help.

<https://www.rd.usda.gov/resources/usda-linc-training-resource-library/linc-contact-and-resources>

Have a question on POLICY?
Contact the PAC team!

Need TRAINING?
Contact the LPA team!

Have a question on a SPECIFIC FILE?
Contact the OPD!

Contacts

Topic	Information
File-Specific Questions	<p>Information to include in email:</p> <ul style="list-style-type: none">• Identify the state the application is located; if applicable;• Provide applicant's name and USDA borrower ID, if applicable;• GUS loan number, if applicable• Include contact information; and• Indicate if you would like a call back (otherwise you will receive an email reply) <p>File-Specific Questions by phone: 833-314-0168, ext. 2 Phone System Availability: 9:00 am to 3:30 pm ET</p> <p>Production Team One: SFHGLPONE@usda.gov AK, AL, AZ, CA, CO, GU, HI, IA, ID, KS, MT, NM, NV, OR, SD, TX, UT, WA, WI, WP, WY Production Team Two: SFHGLPTWO@usda.gov AR, KY, LA, MN, MO, MS, ND, NE, NJ, NY, OK</p> <p>Production Team Three: SFHGLPTHREE@usda.gov CT, DE, GA, IL, MA, MD, ME, MI, NC, NH, RI, SC, VT, WV</p> <p>Production Team Four: SFHGLPFOUR@usda.gov FL, IN, OH, PA, PR, TN, VA, VI</p>
Lender Self-Report	sfhgld.qualityassurance@usda.gov
Program Training Program Marketing and Outreach	sfhgld.lenderpartner@usda.gov
General Loan Scenario Questions Loan Policy/Regulation/Handbook	sfhgld.progra@usda.gov
Turn Times	833-314-0168 Phone System
Lender Approval/Recertification Loan Servicing	sfhgldpservi@usda.gov
Technical Issues: GUS	RD.HD@USDA.gov
Technical Issues: eAuth or Login.gov	https://www.eauth.usda.gov
Loss Claims	guarantee.svc@usda.gov

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