

CHAPTER 4: BORROWER ELIGIBILITY

4.1 OVERVIEW

Ensuring that all applicants served are eligible and receive the correct amount of assistance is a significant responsibility of Loan Originators and Loan Approval Officials. A borrower must be income-eligible, demonstrate a credit history that indicates ability and willingness to repay a loan, and meet a variety of other program requirements. This chapter provides guidance for each of these areas.

- **Section 1: Evaluating Borrower Income** provides instructions for calculating and verifying annual, adjusted, and repayment income.
- **Section 2: Evaluating Borrower Assets** discusses Agency requirements for cash contributions to the purchase and methods for computing income from assets.
- **Section 3: Credit History** identifies indicators of acceptable and unacceptable credit and provides instructions for reviewing an applicant's credit history.
- **Section 4: Other Eligibility Requirements** addresses a variety of other requirements applicants must meet to be eligible for the program.
- **Section 5: Processing the Certificate of Eligibility** provides policies and procedures for processing Form RD 1944-59, Certificate of Eligibility.

SECTION 1: EVALUATING BORROWER INCOME

4.2 OVERVIEW [7 CFR 3550.53(a) and (g), 7 CFR 3550.54]

Loan Originators use income information to: (1) help determine whether an applicant is eligible for a loan; (2) calculate the applicant's ability to repay a loan; and (3) determine the amount of the loan and the amount of payment subsidy the household can obtain. When reviewing an applicant's repayment income, the Loan Originator must determine whether the income is stable and dependable. This will typically be accomplished by reviewing information provided in the application, paystubs, and tax returns. The Loan Originator will generally need to look at two years of history to determine the dependability of the income. In addition, the Loan Originator must determine that there is a reasonable expectation that the income will continue. This section provides guidance for verifying and calculating income for each of these purposes.

A. Key Concepts for Income Determinations

1. Income Definitions

Three income definitions are used. Whenever income determinations are made, it is essential that the Loan Originator use the correct income definition and consider income from the appropriate household members. To determine whether the applicant will be able to repay a loan, the Loan Originator must use **repayment income**. To determine whether an applicant is income-eligible to receive a program loan or payment subsidies, the Loan Originator must use **adjusted income**. Adjusted income is calculated in 2 steps. First, the **annual income** of all household members is calculated. Then, certain household deductions for which the family may qualify are subtracted from annual income to compute adjusted income.

- **Annual Income** is the amount of income that is used to determine an applicant's eligibility for assistance. Annual income is defined as all amounts, monetary or not that are not specifically excluded by regulations, that go to, or are received on behalf of, the applicant/borrower, co-applicant/co-borrower, or any other household member (even if the household member is temporarily absent).
- **Adjusted Income** is used to determine whether a household is income eligible for payment assistance. It is based on annual income and provides for deductions to account for varying household circumstances and expenses.
- **Repayment Income** is used to determine whether an applicant has the ability to make monthly loan payments. It is based only on the income attributable to parties to the note and includes some income sources excluded for the purpose of adjusted income. Repayment income is used during servicing only to determine if a borrower is eligible for a Moratorium or Reamortization as described in Chapter 5, Paragraph 5.5 of HB-2-3550.

2. Whose Income To Count

For repayment income, the Loan Originator must consider only the income of household members who will be parties to the note. For adjusted income, the income of all household members must be considered. For both types, live-in aides, foster children, and foster adults living in the household are not considered household members.

An individual permanently confined to a nursing home or hospital may not be the applicant or co-applicant but may continue as a family member at the family's discretion. The family has a choice with regard to how the permanently confined individual's income will be counted. **The family may elect either of the following:**

- **Include** the individual's **income and receive allowable deductions** related to the medical care of the permanently confined individual; or
- **Exclude** the individual's **income and not receive allowable deductions** based on the medical care of the permanently confined individual.

Exhibit 4-1 is a table which lists whose income is to be counted.

Exhibit 4-1		
INCOME TO BE COUNTED		
Members	Employment Income	Other Income (including income from assets)
Applicant, Co-Applicant/Borrower	Yes	Yes
Spouse	Yes	Yes
Other Adult	Yes	Yes
Permanently Confined Family Member	Optional*	Optional*
Dependents (children under 18)	No	Yes
Full-time Student over 18	See Note	Yes
Non-Members		
Foster Child	No	No
Foster Adult	No	No
Live-in Aide	No	No
<p>NOTE: The earned income of a full-time student 18 years old or older who is not the Applicant, Co-Applicant/Borrower, or Spouse is excluded after it exceeds \$480. All unearned income of a full-time student who is not the Applicant, Co-Applicant/Borrower, or Spouse is counted.</p> <p>*Reminder: The family chooses to include or exclude the permanently confined individual's income.</p>		

3. Income Limits

Some program rules differ according to the income of the applicant. Three different income limits are used for the Section 502 and 504 programs. The National Office provides the income limits and updates the limits whenever they are revised. The income limits can be found online at: <https://www.rd.usda.gov/files/RD-DirectLimitMap.pdf>.

Adjusted income should be compared to the income limit to determine the category in which each household falls. Income limits are as follows:

- The very low-income limit is an adjusted income limit developed in consultation with HUD;
- The low-income limit is an adjusted income limit developed in consultation with HUD; and
- The moderate-income limit is an adjusted income that does not exceed the moderate-income limit for the guaranteed single family housing loan program.

4. Applicant Certification and Verification Requirements

Each applicant must provide the income, expense, and household information needed to enable the Agency to make income determinations. Most of this information is provided on the application, but some additional follow-up with the applicant may be required, as described in Chapter 3, Paragraph 3.8 of this Handbook. The applicant should be requested to provide two years of history (as applicable) for a reasonable determination of income. The documentation required will vary with the source of income. In most cases, the Loan Originator will compare information provided on the application with the tax returns, W-2s, and other preferred verification sources to evaluate the two-year history of income and make the determination if income is stable and dependable.

The need to use Form RD 1910-5, Request for Verification of Employment (VOE), to document previous employment (Part III of the form) should be rare and limited to cases where the preferred verification sources are insufficient to document the applicant's employment history. The Loan Originator and Loan Approval Official will not routinely require a VOE or contact the employer. In some instances, less than two years of history may be acceptable when the applicant provides, and the Loan Originator documents sound justification. For example, an applicant whose compensation changed from hourly to salary income with the same employer in a similar job/position may be considered to have dependable and stable income. While not typical, more than two years of history (i.e., obtaining an additional year's tax return) may be needed.

For example, when an applicant's income varies significantly from year to year, the Loan Originator may need to review a longer work/self-employment history to establish an average income. This can typically be accomplished by obtaining an additional year's tax return with accompanying attachments. In no case will more than 3 years of history be obtained.

Example – Comparing income

When calculating Jorge's income based on the paystub's year to date income, the Loan Originator notices that the historical income from last year's tax return reflects \$10,000 more in income.

Inappropriate response: Automatically require a VOE.

Appropriate response: Contact the applicant and ask what has changed with their income as compared to last year (such as: change in hours, pay rate, or overtime). Document the applicant's response and determine which income source will be used as a result.

For instance, the paystub information is through May, but the applicant reports that the bulk of their overtime is received in November and December each year. In this case, using historical data is more appropriate than year to date.

In the limited situations when verification from a third party is requested, a copy of Form RD 3550-1, Authorization to Release Information, **must** accompany the request. Authorization from each adult household member on the Form RD 3550-1 permits the Loan Originator to ask for, and verification sources to release, the needed information. Application processing should not be delayed if a third party does not respond to a request for information. In these instances, the Loan Originator must seek to obtain the most relevant information which can be obtained from the applicant to verify the information. This may include, but is not limited to, evidence of deposits/withdrawals, copies of cancelled checks, etc.

The verification and certification formats that are provided in Appendix 2 of this Handbook are not official Agency forms. They are samples that may be adapted as needed for particular circumstances. In some instances, the same format can be used whether a third party is providing the verification, or the applicant is making a certification.

5. Stable and Dependable Income

The Agency has no minimum history requirement for employment in a particular position. The key concept is whether the applicant has a history of receiving stable income and a reasonable expectation that the income will continue. Instead, the Loan Originator must carefully assess the applicant's income to establish whether it can reasonably be expected to continue for the next two years (e.g., child support and contractual income). Nonetheless, most income cannot be guaranteed, nor will employers certify that income will continue for the next two years. A VOE should not be requested to obtain 'probability of continued employment' in order to make this determination. Instead, the Loan Originator and Loan Approval Official will compare projected income with the last two years of income (if applicable) to determine if the applicant has demonstrated an income level which is likely to continue.

The applicant must provide an explanation letter for employment gaps in excess of 30 days unless their income history is clearly seasonal in nature (e.g., construction, farm labor, recreational). The Loan Originator must review the employment gap explanation, as well as the historical/projected income to determine the applicant's ability to receive stable and dependable income. If the Loan Originator determines that an applicant's income source is unstable and undependable, the income must be excluded from repayment but included in annual income.

- **Wage and Salary Income.** Income from employment may include a base hourly wage or salary, overtime pay, commissions, fees, tips, bonuses, housing allowances, and other compensation for personal services of all adult members of the household. When the applicant demonstrates a two-year history of stable or rising income, current income from each of these sources may be used unless there is evidence to the contrary. Wage and salary income may be determined from paystubs and historical data.

Seasonal Income Example 1 – Stable Income

Steven Green has been working for the last 6 months for LMN Contractors as a Construction Foreman. Before that, he worked for PDQ Building Supply for 8 months as a Shift Supervisor. There is a 6-week gap in his employment history that he explains as being the result of a lay-off after a large construction project (where he was employed for 15 months as a construction worker) was completed. Mr. Green's income is considered stable because the reasons for his job changes were related to changes in job opportunities. Even though his job changed several times, his line of work was similar.

Seasonal Income Example 2 – Stable Income

Martha George harvests cherries, apricots, and apples. Each year, she works for different employers and processing plants. Last year's tax return reflects income and unemployment benefits of \$42,000 and the year prior indicates \$40,000. She applied for the loan in May just at the start of cherry season and provided a paystub for her current employer. However, since she has multiple employers, the historical income should be used. Since the prior two years reflect similar income, her income can be considered stable and dependable and would be used for annual and repayment income.

Example – Dependable Income

Mary Brown receives SSI income for her dependent child who is 17 years of age. The SSI income should not be counted as repayment income because it clearly cannot be expected to continue. It would be counted as annual income since it is current verified income.

- **Self-employment Income.** Income based on a two-year history of self-employment, in the same line of work, is an acceptable indicator of stable and dependable income. Refer to Attachment 4-C of this Chapter for guidance on what documentation is needed for each business structure.

Example – Self-Employment, Commission and Other Irregular Income

Julie McAhren sells beauty products door-to-door on commission. She makes most of her money in the months prior to Christmas but has some income throughout the year. She has no formal records of her income other than a copy of the IRS Form 1040 she files each year. With no other information available, use the income reflected on Julie's copy of her Form 1040 as her annual income and make the income adjustments according to Attachment 4-C.

Betty House sells real estate on commission. She makes most of her money during the summer months. She has no formal records of her income other than a copy of a 1099 and the Tax Return (Form 1040) she files each year. The gross earning on the 1099 should not be used as her annual income. Use the income and other information on the tax return in conjunction with Attachment 4-C to calculate the self-employment income.

- **Other Sources of Income.** Income from public assistance, child support (including back child support), alimony, or retirement that is consistently received is considered stable when such payments are based on: (1) a law, written agreement or court decree, or have been consistently received over a 12 month period (even if there is no written agreement or court decree), (2) the amount and regularity of the payments, (3) the eligibility criteria for the payments, such as the age of the child (when applicable) or the length of the alimony agreement, and (4) the availability of means to compel payments.

Examples – Other Sources of Income

Janis Phillips is not always well enough to work full-time. When she is well, she works as a typist with a temporary agency. Last year was a good year and she worked a total of nearly six months. This year, however, she has more medical problems and does not know when or how much she will be able to work. Because she is not working at the time, it will be best to exclude her employment income and remind her that she must report the date when she resumes work.

Sam Shah receives social security disability. He reports that he works as a handyman periodically. He cannot remember when or how often he worked last year; he says it was a couple of times. Sam's earnings appear to fit into the category of nonrecurring, sporadic income that is not included in annual income. Tell Sam his earnings are not being included in his annual income this year, but he must report any regular work or steady jobs he takes.

Jane Smith receives child support payments for her sixteen and a half-year old son. She has a copy of the court appointed child support agreement, which states that the child support will end when son turns 18, and a computer print-out of a 12-month child support payment history. The child support income should be counted in the annual income but excluded from the repayment income calculation because it is not expected to continue for the next two years.

Sheila Thornback has a 10-year-old daughter with Duke Johnson; and there is no written agreement or court decree of child support. Duke has paid Sheila \$350 per month since their daughter was born. Sheila has provided a 12-month history of canceled checks reflecting Duke's child support payments. Although there is not a written agreement between Sheila and Duke the child support income should be counted as annual and repayment income, since the income is stable and dependable and expected to continue.

- **Irregular Income.** Irregular income from employment are earnings that may vary on a weekly, monthly, or seasonal basis depending on the type of income. This income is not guaranteed, nor received on a regular basis. Irregular income includes over-time, bonus, second job, part-time, and seasonal income (e.g., farmworker, construction, union labor, etc., which is typically in the same line of work but may involve multiple employers and periods of unemployment). Irregular income may be considered stable when the applicant has worked in the same line of work (not necessarily the same employer) for at least two years. Loan Originators may accept less than a two-year history (but no less than 12-months) of irregular income if there is a strong likelihood that the applicant will continue to receive that income. Loan Originators must establish the income trend and calculate a monthly average for the irregular income. When the applicant receives seasonal unemployment compensation, it must be clearly associated with seasonal layoffs expected to recur and be reported on the applicant's federal income tax returns. If unemployment is associated with seasonal layoffs, the Loan Originator does not need to contact the employer or obtain a letter of explanation from the applicant for gaps in employment. Commission-based pay is also considered irregular income. Additional guidance on calculating commission income is provided in Attachment 4-C of this Chapter.

Example – Irregular Income

Ross Bosser is a roofer who works from April through September. He does not work in rain or windstorms. Based on the two-year history of Federal taxes and his 1099 tax forms, the income is considered stable and dependable, since Ross shows a two-year history working in the same line of work. To calculate Ross's anticipated income, use the average gross earnings and seasonal unemployment compensations from the Federal income taxes (Form 1040) over the past two years.

Less Than Two Years of History. In some cases, a history of less than two years is acceptable. The determination requires a careful analysis by the Loan Originator. This may include an applicant who is either new to the work force, is on a probationary period, or has returned to the work force after an extended absence. The Loan Originator may consider reasonable allowances for less than a two-year history under the following circumstances:

- The applicant has recently changed jobs but remains in the same line of work.
- The applicant frequently changes jobs but demonstrates income continuity.
- The applicant is a recent graduate, as evidenced by college transcripts, or a recent member of the military, as evidenced by discharge papers, entering the civilian workforce.
- The applicant has recently re-entered the workforce after an absence due to an extended medical illness, to care for a family member or minor child, or other similar circumstances.

Example – Less Than Two Years History

For the last few years, Ellen Dixon has been a homemaker with no outside employment. Now that her children are old enough, she has taken a job as a teacher for which she has the necessary education and certifications. She is currently half way through her 6-month probation period and we have confirmed that she is a permanent employee. Ms. Dixon's income can be considered stable and dependable.

B. Using UniFi and the Income Worksheet to Compute Income

Packagers and Loan Originators must use Attachment 4-A of this Chapter, the Worksheet for Computing Income, to organize the household information and calculate each household member's income using the four calculation methods (straight-based, average, year-to-date, and historical). The Loan Originator must determine annual, adjusted annual, and repayment income on Attachment 4-A of this Chapter and enter the data into UniFi. Attachment 4-A of this Chapter and the Eligibility Summary must be completed, signed, and placed in the applicant's electronic case file at the eligibility determination, loan approval and closing stages.

When a packager or self-help grantee submits Attachment 4-A of this Chapter, the name of the preparer will be provided. The Loan Originator will review the submitted Attachment 4-A and compare the data to the paystubs (i.e., no more than 60 days old) and historical data provided in the loan application package. If the income calculations are reasonable based on the data provided in the loan application package, the Loan Originator should concur and continue processing. If the income calculations are not supported by the paystubs and historical data provided, the Loan Originator will prepare a corrected version for the file. The corrected version will be retained with the original submission in the file. A copy of the corrected version, along with a brief explanation of what corrections were made and any resulting changes to the requested loan amount or eligibility, must be provided to the packager for their records.

Attachment 4-A, Worksheet for Computing Income**Example 1**

Homes-R-Us, a self-help packager, submitted an income calculator which was based on paystubs through June, as well as two years of historical tax returns. The data on the calculator matches the paystub information in the loan application package. All four income methods were calculated, and the income range from the lowest to the highest value is within \$500. The packager selected the year-to-date income for both annual and repayment income. Although the year-to-date income is \$300 less than historical, the packager documented that the applicant has never previously worked overtime, but the historical income is higher is due to extra hours worked by the applicant to fill the hours of two staff members that were on maternity leave at the same time, which is not likely to continue. The information is reasonable and well documented, therefore, there is no need to re-calculate the income. The Loan Originator may concur with the calculations and continue processing.

Example 2

Orcas County Community Action (OCCA) submitted an income calculator based on paystubs and tax returns. The year-to-date income based on the paystub is \$5,839 but the year-to-date entered on the calculator is \$8,539 due to a typographical error. As a result, the income projections for the family of eight are considerably more than they should be. The Loan Originator will need to prepare a corrected version and send it to OCCA to document the corrections to the income calculations, which resulted in a lower loan amount.

4.3 SOURCES OF INCOME

Loan Originators will consider sources of income to determine annual and repayment income. This section provides guidance on income that will and/or will not be counted.

A. Income Considered for Annual and Repayment Income

For annual income, consider income from the following sources that are attributable to any household member. For repayment income, consider income from the following sources that are: attributable to parties to the note and represent a source of dependable income.

1. The gross amount, before any payroll deductions, of base wages and salaries, overtime pay, commissions, fees, tips, bonuses, housing allowances, and other compensation for personal services of all adult members of the household. If a cost of living allowance or a proposed increase in income has been estimated to take place on or before loan approval, loan closing, or the effective date of the payment assistance agreement, it will be included as income. For **annual income**, count only the first \$480 of earned income from adult full-time students who are not the borrower, co-borrower, or spouse.

Employer paid and provided fringe benefits documented on employee pay statements as taxable earnings that will be received in the ensuing 12 months should be included in annual income. Fringe benefits may include, but are not limited to:

- Child care/pet-sitting,
- Medical/life insurance,
- Car/mileage allowance,
- Stock options,
- Discounts for merchandise,
- Sport/concert/movie tickets or entertainment,
- Charity donations in employee name,
- Any reimbursement of actual work expenses.

Housing allowances may include, but are not limited to:

- Cash or non-cash contributions paid on behalf of the applicant/borrower by persons not living in the house,
- Allowances for members of the Armed Forces,
- Allowances for members of the Clergy,
- Allowances paid by employer.

Funds received for goods or services (e.g., piano lessons, home-based craft business, etc.) through centralized, online payment platforms (e.g., Cash Applications such as Venmo, PayPal, Zelle, etc.) should be considered if they appear to be recurring. If funds are not transferred to a U.S. Financial Institution (bank, credit union, etc.), the applicant must provide a transaction history from the Cash Application.

2. The net income from the operation of a farm, business, or profession. Below are certain deductions the IRS allows to reduce taxable income: (Refer to Attachment 4-C of this Chapter for guidance on what non-cash deductions can be added back to repayment income.)

- Expenditures for business or farm expansion, capital improvements, or payments of principal on capital indebtedness shall not be used as deductions in determining income. A deduction is allowed in the manner prescribed by Internal Revenue Service (IRS) regulations only for interest paid in amortizing capital indebtedness.

Paragraph 4.3 Source of Income

- Farm and non-farm business losses are considered "0" in determining annual income. Loan Originators should analyze federal tax returns and review if there are any non-cash deductions that should be added back into repayment income, which could result in a positive repayment income figure. A negative amount must **not** be used to offset other family income for annual and repayment income.
- A deduction, based on straight line depreciation, is allowed in the manner prescribed by IRS regulations for the exhaustion, wear and tear, and obsolescence of depreciable property used in the operation of a farm, business, or profession by a member of the household. The deduction must be based on an itemized schedule showing the amount of straight-line depreciation. This non-cash deduction, based on straight line depreciation, can be added back into repayment income, but should not be added back into annual income.
- Depletion is the using up of natural resources extracted from a mineral property by mining, drilling, quarrying stone, or cutting timber. A depletion deduction is allowed to account for the reduction of the mineral property's value or basis as a result of the extraction of the natural resource. This non-cash deduction can be added back into repayment income but should not be added back into annual income.
- Any withdrawal of cash or assets from the operation of a farm, business, or profession, or salaries or other amounts distributed to family members from the farm, business, or profession, will be included in income, except to the extent the withdrawal is for reimbursement of cash or assets invested in the operation by a member of the household.
- A deduction is allowed for verified business expenses, such as lodging, meals, and fuel, for business trips made by salaried employees, such as long-distance truck drivers, who must meet these expenses without reimbursement.
- For home-based operations such as child care, product sales, and the production of crafts, housing related expenses for the property being financed such as mortgage interest, real estate taxes, and insurance, which may be claimed as business expense deductions for income tax purposes, will not be deducted from annual income.

3. Interest, dividends, and other net income of any kind from real or personal property, including:
 - The share received by adult members of the household from income distributed from a trust fund.
 - Any withdrawal of cash or assets from an investment except to the extent the withdrawal is reimbursement of cash or assets invested by a member of the household.
4. The full amount of periodic payments received from Social Security (including Social Security received by adults on behalf of minors or by minors intended for their own support, or by an applicant who is a representative payee for an adult household member who will reside in the property), annuities, insurance policies, retirement funds, pensions, disability or death benefits, and other similar types of periodic receipts. However, deferred periodic amounts from supplemental income and social security benefits that are received in a lump sum amount or in prospective monthly amounts are not counted.

Example – Adjustment for Prior Overpayment of Benefits

Dan Steven's social security payment of \$250 per month is being reduced by \$25 per month for a period of six months to make up for a prior overpayment. Count Dan's social security income as \$225 per month for the next six months and as \$250 per month for the remaining six months.

5. Payments in lieu of earnings, such as unemployment and disability compensation, worker's compensation, and severance pay. Unemployment income requires a two year documentation of receipt and reasonable assurance of its continuance. This may be appropriate for individuals employed on a seasonal basis (e.g., farm laborers, construction workers, etc.).
6. Public assistance except as indicated in Paragraphs 4.3 C. and D.
7. Periodic allowances, such as:
 - Alimony and child support received by the household.
 - Recurring monetary gifts or contributions from an organization or person who is not a member of the household.

Paragraph 4.3 Source of Income

- If another party provides funds to the applicant for a monthly debt (owed by the applicant), the recurring funds received by the applicant should be considered as recurring gift income and the debt must be included in the total debt (TD) ratio. If another party assumes the responsibility for the debt and pays the creditor directly, the payment paid directly to the creditor should not be included as recurring gift income and the debt can be excluded from the TD ratio (see Paragraph 4.22 of this Chapter).

Examples – Regular Cash Contributions

The father of a young single parent pays her monthly utility bills. On average, he provides the applicant \$100 each month. The \$100 per month must be included in the family's annual income.

The daughter of an elderly applicant gives her mother \$175 each month to assist with her living expenses. The daughter plans to continue subsidizing her mother's expenses. The \$175 per month must be included in the annual income.

8. All regular pay, special pay (except for persons exposed to hostile fire), and allowances of a member of the armed forces who is the applicant or spouse, whether or not that family member lives in the home.

B. Additional Income Considerations for Repayment Income

Consider these additional sources of income that are attributable to parties to the note and represent a source of dependable income for repayment income only.

1. Housing assistance payment (HAP). (HUD's Housing Choice Voucher– Homeownership Program sometimes referred to as Section 8 for Homeownership.) See Paragraph 8.9 on how HAP payments should be handled. For additional information on the Housing Choice Voucher – Homeownership Program, visit https://www.hud.gov/topics/housing_choice_voucher_program_section_8.
2. Adoption assistance payments in excess of \$480 per adopted child.
3. Reparation payments paid by a foreign government arising out of the Holocaust. If any applicant for an Agency loan was deemed ineligible because the applicant's income exceeded the low-income limit because of the applicant's Nazi persecution benefits, the Agency Loan Approval Official should notify the applicant to reapply for a loan.

4. Certain income tax credits regularly received via the applicant's employer.
5. The full amount of student financial assistance received by household members or paid directly to the educational institution who are parties to the note. Financial assistance includes grants, educational entitlements, work study programs, and financial aid packages. It does not include tuition, fees, student loans, books, equipment, materials and transportation. Any amount provided for living expenses may be counted as **repayment income**.
6. Amounts received by the family in the form of refunds or rebates under State or local law for property taxes paid on the dwelling unit.
7. Any other revenue which a Federal statute exempts will be considered **repayment income**. This includes:
 - The imminent danger duty pay to a service person applicant or spouse away from home and exposed to hostile fire.
 - Payments to volunteers under the Domestic Volunteer Service Act of 1973, including, but not limited to:
 - ◊ National Volunteer Antipoverty Programs which include Peace Corps, Service Learning Programs, and Special Volunteer Programs.
 - ◊ National Older American Volunteer Programs for persons age 60 and over which include Retired Senior Volunteer Programs, Foster Grandparent Program, Older American Community Services Program, and National Volunteer Programs to Assist Small Business and Promote Volunteer Service to Persons with Business Experience, Service Corps of Retired Executives (SCORE), and Active Corps of Executives (ACE).
 - Payments received after January 1, 1989, from the Agent Orange Settlement Fund or any other fund established pursuant to the settlement in the "In Re Agent Orange" product liability litigations, M.D.L. No. 381 (E.D.N.Y.).
 - Payments received under the "Alaska Native Claims Settlement Act" or the "Maine Indian Claims Settlement Act."
 - Income derived from certain sub-marginal land of the United States that is held in trust for certain American Indian tribes.

Paragraph 4.3 Source of Income

- Payments or allowances made under the Department of Health and Human Services Low-Income Home Energy Assistance Program.
 - Payments received from the Job Training Partnership Act.
 - Income derived from the disposition of funds of the Grand River Band of Ottawa Indians.
 - The first \$2,000 of per capita shares received from judgment funds awarded by the Indian Claims Commission or the Court of Claims, or from funds held in trust for an American Indian tribe by the Secretary of Interior.
 - Payments received from programs funded under Title V of the Older Americans Act of 1965.
 - Any other income which is exempted under Federal statute.
8. Amounts paid by a State Agency to a family with a developmentally disabled family member living at home to offset the cost of services and equipment needed to keep the developmentally disabled family member in the home.
 9. The special pay to a family member serving in the Armed Forces who is exposed to hostile fire.
 10. Income received from the Supplemental Nutrition Assistance Program (SNAP) may be considered to calculate repayment income in an amount **not to exceed 20 percent of the total repayment income** (“not to exceed” amount), including benefits provided through an EBT card. The following provisions apply:
 - Only the SNAP benefits attributable to the note signers can be considered for repayment income.
 - Only **the lesser** of the “not to exceed” amount or the actual SNAP benefits can be included in the applicant’s repayment income.

Example – Income from SNAP Benefits

Eloise Thompson’s monthly income from employment is \$800. She also receives \$300 per month in child support payments for her 6-year-old daughter and \$200 per month in SNAP benefits. To consider the SNAP benefits in the repayment income calculation, the “not to exceed” amount must be calculated.

Monthly repayment income excluding SNAP benefits ($\$800 + \300): \$1,100

To calculate Income from SNAP benefits:

- | | |
|---|---------|
| 1. Equalize the repayment income ($\$1,100 / .80$): | \$1,375 |
| 2. Calculate the “ <u>not to exceed</u> ” amount ($\$1,375 - \$1,100$): | \$ 275 |
| 3. Compare to <u>actual</u> SNAP benefits received: | \$ 200 |

The amount of SNAP that can be considered in repayment is the **lesser** of the “not to exceed” amount (\$275) or the actual SNAP benefits (\$200), therefore, the amount considered in repayment is the actual SNAP benefit of \$200.

Monthly repayment income after SNAP consideration: \$1,300

C. Income Never Considered for Annual and Repayment Income

The following sources are never considered when calculating annual income or repayment income:

1. Income from the employment of persons under 18 years of age, except parties to the note and their spouses.
2. Special-Purpose Payments. These are payments made to the applicant’s household that would be discontinued if not spent for a specific purpose. Payments which are intended to defray specific expenses of an unusual nature, and which are expended solely for those expenses should not be considered as income. Examples include, but are not necessarily limited to, the following:
 - a. Medical Expenses. Funds provided by a charitable organization to defray medical expenses, to the extent to which they are actually spent to meet those expenses.
 - b. Foster Children/Adults. Payments for the care of foster children or adults.
NOTE: Foster children are not considered members of the family. Therefore, no adjustments to income are to be made because of their presence.
3. Temporary, nonrecurring, or sporadic income (including gifts).

Paragraph 4.3 Source of Income

4. Lump-sum additions to family assets such as inheritances, capital gains, insurance payments included under health, accident, hazard, or worker's compensation policies, and settlements for personal or property losses.
5. Amounts that are granted specifically for, or in reimbursement of, the cost of medical expenses for any family member.
6. Payments received on reverse amortization mortgages (these payments are considered draw-down on the applicant's assets).
7. Income received by foster children or foster adults who live in the household, or live-in aides, regardless of whether the live-in aide is paid by the family or a social services program (family members cannot be considered live-in aides unless they are being paid by a health agency and have an address, other than a post office box, elsewhere).
8. Amounts received by any family member participating in programs under the Workforce Investment Act of 1998 (29 U.S.C. 2931).
 - Amounts received by a person with a disability that are disregarded for a limited time for purposes of Supplemental Security Income eligibility and benefits because they are set aside for use under a Plan to Attain Self-Sufficiency (PASS).
 - Amounts received by a participant in other publicly assisted programs which are specifically for or in reimbursement of out-of-pocket expenses incurred (special equipment, clothing, transportation, child care, etc.) and which are made solely to allow participation in a specific program.
9. Earned income tax credits.
10. Incremental earnings and benefits resulting to any family members from participation in qualifying State or local employment training programs (including training programs not affiliated with a local government) and training of a family member as resident management staff. Amounts excluded by this provision must be received under employment training programs with clearly defined goals and objectives and are excluded only for the period during which the family participates in the employment training program.

11. Allowances, earnings and payments to AmeriCorps participants under the National and Community Service Act of 1990 (42 E.S.C. 12637{d}).
12. Income earned on a retirement account (by non-retirees), from interest, dividends, or capital gains when funds can only be accessed by retiring, terminating employment, loaning against the account, or withdrawing with penalties.

D. Additional Income Never Considered for Annual Income

In addition, the following sources are never considered when calculating annual income:

1. Payments received for the care of foster children, or foster adults (usually individuals with disabilities who are unable to live alone).
2. Deferred periodic payments of supplemental security income and Social Security benefits that are received in a lump sum amount or in prospective monthly amounts.
3. Any amount of crime victim compensation received through crime victim assistance (or payment or reimbursement of the cost of such assistance) because of the commission of a crime against the applicant under the Victims of Crime Act (42 U.S.C. 10602).
4. Any allowance paid under 38 U.S.C. 1805 to a child suffering from spina bifida who is the child of a Vietnam veteran.
5. Payments by the Indian Claims Commission to the Confederated Tribes and Bands of Yakima Indian Nation or the Apache Tribe of Mescalero Reservation (Pub.L. 95-433).
6. Housing assistance payment (HAP) (HUD'S Housing Choice Voucher Homeownership Program, sometimes referred to as Section 8 for Homeownership). The HAP is not included in the household's annual income for the purpose of determining the income category in which the household falls or determining payment assistance.
7. Adoption assistance payments in excess of \$480 per adopted child.

Paragraph 4.3 Sources of Income

Examples – Income Exclusions

- **The Value of Food Provided through the Meals on Wheels Program or Other Programs Providing Food for the Needy.** Shane Michaels received a hot lunch each day during the week in the community room and an evening meal in his apartment. One meal is provided through the Meals on Wheels program. A local church provided the other. The value of the meals he receives is not counted as income.
- **Groceries provided by persons not living in the household.** Melissa Bostic's mother purchases and delivers groceries each week for Melissa and her two year old. The value of these groceries is not counted as income despite the fact that these are a regular contribution or gift.
- **Amounts Received Under WIC or the School Lunch Act.** Cody Britt's two children receive a free breakfast and reduced priced lunches at school every day through the Special Supplemental Food Program for Women, Infants and Children (WIC). The value of this food is not counted as income.
- **Deferred periodic payments of social security benefits.** Andrew Ray received \$32,000 in deferred social security benefits following a lengthy eligibility dispute. This delayed payment of social security benefits is treated as an asset, not as income.
- **Income from training programs.** Jamey Hawkins is participating in a qualified state-supported employment training program every afternoon to learn improved computer skills. Each morning, she continues her regular job as a typist. The \$250 a week she receives as a part-time typist is included in annual income. The \$150 a week she receives for participation in the training program is excluded in annual income.
- **Student financial assistance.** Dylan Nessel won a scholarship from the local civic association. The association sends him a \$1,000 check each semester to help with tuition costs. These funds are excluded from annual income.

E. Verifying Sources and Amounts

The Loan Originator must verify income information provided by the applicant. Paragraph 3.15 of this Handbook describes the different types of verifications. Federal Income Tax Returns with supporting documentation are the preferred verification source for prior income/previous employment. These documents along with award letters, court orders and/or paystubs (supported by oral verification when the applicant has been with the employer for less than a year or the verifications are inconsistent) are preferred when reviewing current income sources and projecting both annual and repayment income. Written Verifications of Employment (VOE) provided by third-party sources or other similar documents prepared by third-party sources are only required when the applicant is unable to provide sufficient recent, reliable and consistent third-party documentation which is readily available to them (paystubs, award letters, etc.).

Each applicant must sign Form RD 3550-1, Authorization to Release Information, at the time of application. Copies of this form must accompany any request for verification from third-party sources. Form SSA-3288, Consent for Release of Information, may also be used for Social Security verifications when the applicant is unable to provide a copy of an award letter. When applicable, a complete copy of the last two filed and signed IRS Form 1040, U.S. Individual Income Tax Returns must be provided by the applicant. IRS Form W-2, Wage and Tax Statement, and/or IRS Form 1099-MISC, Miscellaneous Income, must be attached to the applicant's federal income tax return in order for it to be considered a complete return. When reviewing W-2 information, Block 5 is typically used for gross income.

	a Employee's social security number	This information is being furnished to the Internal Revenue Service. If you are required to file a tax return, a negligence penalty or other sanction may be imposed on you if this income is taxable and you fail to report it.	
		OMB No. 1545-0008	
b Employer identification number (EIN)		1 Wages, tips, other compensation	2 Federal income tax withheld
c Employer's name, address, and ZIP code		3 Social security wages	4 Social security tax withheld
		5 Medicare wages and tips	6 Medicare tax withheld
		7 Social security tips	8 Allocated tips
d Control number		9	10 Dependent care benefits

For electronically filed tax returns, it is not necessary to require the applicant(s) to manually sign the return for application purposes if there is sufficient documentation the applicant has signed and filed the return electronically (e.g. use of Self-Select PIN for Free File Fillable Forms, Electronic Filing PIN, authorized E-File Provider, etc.).

The Agency will ask the applicants exceeding the filing thresholds established by the IRS to directly request, obtain, and provide a copy of their tax return transcript for the previous two tax years (using IRS Form 4506-T, Request for Transcript of Tax Return) ***if additional income validation is needed***. If there are inconsistencies between the income verifications (e.g. pay stubs, tax returns, etc.), or if the applicant was unable to furnish complete copies of their last two filed returns (e.g. a W-2 was missing), then the transcript should be requested. The transcript should also be requested if the income verifications appear suspicious (e.g. there is evidence of alteration).

Applicant(s) not required to file should provide a letter of explanation. This explanation will further be supported by documentation in the file obtained by the Loan Originator confirming the IRS filing thresholds based on income, applicable age, and filing status were not exceeded by the applicant(s). Loan Originators may obtain information for who is required to file a tax return for applicable tax years on the IRS website at <https://www.irs.gov/newsroom/fact-sheets> (suggested key term search may include '...who needs to file..'). Past tax year Fact Sheets indicating filing thresholds can be located under the "News release and fact sheet archive" link: <https://www.irs.gov/newsroom/news-release-and-fact-sheet-archive>.

Appendix 2 of this Handbook provides sample certification and verification formats for a number of purposes.

Paragraph 4.3 Source of Income

The following chart provides guidance on acceptable alternative sources of verifications of different types of income:

INCOME (If Preferred Source of Verification cannot be obtained without cost, Acceptable Alternative may be used.)	
Type of Income or Verification Source	Verification Requirements and Procedures
WAGES or SALARY	
Paycheck Stubs or Payroll Earnings Statements for not less than four (4) consecutive weeks Preferred Source AND Oral Verification as permitted in Paragraph 3.15 A.3. Preferred Source	The applicant must list all household members on the application and provide their employment status. They must be consecutive and “most recent” (i.e., no more than 60 days old) as of the date the loan application is made; must clearly identify the applicant (or adult household member) as the employee by name and/or social security number; must show the gross earnings for that pay period and year-to-date; and must be computer-generated or typed. Oral verifications should only be used if the applicant has worked for the employer for less than a year or the other types of verifications are inconsistent or suspicious, documented as follows: If an oral verification is needed, document in the running record the date of contact and list: The employer’s name/address/phone number/contact person and title; the employee’s name, date of employment, present position and probability of continued employment; the source of the phone number (applicant, realtor, yellow pages, website); and the name and title of the Rural Development employee that contacted the employer. Note: It is not necessary to contact the employer (for an oral verification) to determine probability of continued employment or whether overtime is likely to continue. By evaluating the historical and year to date information, the Loan Originator and Loan Approval Official should be able to determine whether the income is likely to continue.
Electronic Verification Acceptable Alternative (in lieu of paycheck stubs only)	It must clearly identify the applicant (or adult household member) as the employee by name and/or social security number, cover the most recent pay period as of the date the initial loan application is made, and show the gross earnings for the most recent 30-day pay period and year-to-date. <u>Obtain oral verification of employment</u> only if the applicant has worked for the employer for less than a year or the other types of verifications are inconsistent or suspicious.
Written Verification of Employment Acceptable Alternative	Only if paycheck stubs or earnings statements are unpredictable, appear fraudulent, or are not available, the Loan Originator must send Form RD 1910-5, Request for Verification of Employment, to each employer for verification.

Type of Income or Verification Source	Verification Requirements and Procedures
For SELF-EMPLOYED PERSONS	
Federal Tax Returns and Income & Expense Statement Preferred Source	<p>Self-employed applicants (or adult household members) must provide the last two complete, signed, and filed individual and business Federal Income Tax Returns (IRS Form 1040) along with all schedules. If the applicant has wage income, all IRS Form W-2s must be attached to the applicant's Federal Income Tax Return for the tax returns to be considered complete. Refer to Attachment 4-C for guidance on what documentation is needed for each business structure.</p> <p>If the applicant reports a significant increase or decrease in their self-employment income or does not have two full years of filed tax returns, the applicant must also provide the most recent income and expense, and balance sheet, or Verification of Business Expenses. The Loan Originator must compare the income and expense, and balance sheet or Verification of Business Expenses provided by the applicant to analyze the income trend of the business.</p> <p>(NOTE: The Verification of Business Expenses, found in Appendix 8 provides a sample format for recording business expenses.)</p>
SUPPLEMENTAL VERIFICATION	
Seasonal Employment (to include wages and unemployment benefits) Preferred Source	<p>A household member who is a seasonal worker must provide the last two years of complete, signed, and filed Federal Income Tax Returns (e.g. all W-2 forms, schedules, 1099-MISC forms, etc.) If the applicant has less than two years of seasonal employment, the Loan Originator must document there is a strong likelihood that the applicant will continue to receive that income.</p> <p>If an applicant receives unemployment compensation, that is clearly associated with seasonal layoffs expected to recur, the Loan Originator does not need to contact the employer or obtain a letter of explanation for gaps of seasonal layoffs, as long as unemployment compensation is reported and documented with the last two years of the applicant's federal income tax returns.</p>
Unemployment Benefits (not associated with seasonal employment), Disability & Worker's Compensation, Severance Pay (except lump-sum additions) Preferred Source	<p>All applicants (or adult household members) must complete Form RD 3550-4, Employment and Asset Certification, which provides his/her current employment status and requires them to agree to inform the Agency immediately, in writing, if the employment status changes. If an applicant has recently become unemployed, the Loan Originator should contact the former employer to confirm that the applicant is no longer employed and that re-employment is not expected.</p> <p>Applicants (or adult household members) receiving <u>unemployment</u> benefits (not associated with seasonal employment), must provide the most recent award or benefit letter prepared and signed by the authorizing agency to verify the <u>non-employment</u> income. Appendix 8 of this Handbook provides a sample format for requesting information about unemployment benefits.</p> <p>It must clearly identify the adult household member as the employee by name and/or social security number and cover the most recent earnings as of the date the verification is submitted.</p>

Paragraph 4.3 Source of Income

Electronic Verification Acceptable Alternative	Electronic verification of self-employment income for that period, copy of checks, or bank statements, all showing gross earnings. All authorized deductions must be added back to checks or bank statements to reflect gross amount.
Mortgage Credit Preferred Source for MCC Applicable IRS Form or Letter from Employer	An applicant receiving a MCC must file IRS Form W-4, Employee's Withholding Allowance Certificate. This IRS form enables the applicant's employer to include a portion of the applicant's income tax credit in their regular paycheck. Income tax credits not advanced through the applicant's employer on at least a monthly basis cannot be included in repayment income but may warrant consideration as a compensating factor. The documents must be the "most recent" and identify the applicant by name and/or social security number. Signed copies of the applicable IRS Form or a letter from the employer stating the applicant has executed and the employer has accepted the document.
Regular, Unearned Income (e.g., Social Security, SSI, Retirement Funds, Pensions, Annuities, Disability or Death Benefits) (except deferred periodic payments) Preferred Source Acceptable Alternative	The applicant (or adult household member, including adult full-time students) must provide a copy of the most recent award or benefit letter prepared and signed by the authorizing agency. If the date of the letter is not within the last 12 months, require the applicant to submit information updating the award, for example, a cost-of-living (COLA) payment notice, Social Security Benefits Statement, or a notice of change in benefits. Appendix 8 provides sample formats for requesting this information. The two most recent bank statements showing the amount of monthly benefits received and IRS Form 1099 for the previous year. The Social Security debit card (i.e., Direct Express card) is an alternate way for applicants to receive their monthly federal benefits. The federal benefits are paid directly to the debit card on the monthly payment date. Similar to obtaining bank statements, the two most recent debit card statements showing the amount of the monthly benefits deposited can be used as an acceptable alternative. Loan Originators must verify that the benefit shown on the bank statement reflects the gross amount of the benefit prior to deductions for items such as taxes, health benefits, insurance premiums, etc. via the most recent award or benefit letter from the authorizing agency.
Student Financial Aid Preferred Source Acceptable Alternative	Electronic verification or copy from the Financial Aid Office at the applicable school may be used to verify student financial aid. Verification of Student Income and Expenses

Alimony or Child Support Payments Preferred Source	The applicant (or adult household member) must obtain a payment history for the last 12 months from the court appointed entity responsible for handling payments. The average amount received will be used in the income calculations.
Electronic Verification Acceptable Alternative	The two most recent bank statements showing electronic deposit of the monthly alimony and/or child support received AND a copy of the child support agreement, court appointed divorce decree or separation agreement (if the divorce is not final) that provides for the payment of alimony or child support and states the amount and the period of time over which it will be received.
Cancelled Checks / Electronic Verification Acceptable Alternative	If (and only if) there is not a court appointed entity responsible for handling payments and formal documents were never issued, support payments can be certified as being received by obtaining cancelled checks or bank statements for the last 12 months to verify the amount received.
Divorce Decree/Separation Agreement/Court Order of Support Payments Acceptable Alternative	If (and only if) a source of income was awarded in the decree, and there is not a court appointed entity responsible for handling payments, the applicant (or adult household member) may provide a copy of the divorce decree, separation agreement, or other court ordered document indicating the amount of the required support payments. If the applicant reports that the amount required by the agreement is not being received, the applicant must provide adequate documentation of the amount being received (i.e., copies of the checks or money orders from the payer, etc.) and certify the payments are being received or not received.
Cancelled Checks Acceptable Alternative	If (and only if) there is not a court appointed entity responsible for handling payments and formal documents were never issued, support payments can be certified as being received or not received.
Verification of Assets and Income from Assets and Investments Preferred Source	Form RD 3550-4, Employment and Asset Certification, will be used to confirm the level of the household's combined net assets. Obtain the two most recent complete bank or brokerage statements showing the transaction history and the current balance. If the applicant has a Social Security debit card (i.e. Direct Express card), obtain the two most recent debit card statements showing the transaction history and the current balance. If account information is reported on a quarterly basis, obtain the most recent quarterly statement. To further document interest and dividend income the applicant must provide copy of Federal tax forms and schedules clearly identifying income from interest, dividends, and capital gains. For some assets such as mutual funds or 401(k) accounts, copies of year-end statements can provide information about annual income. If the Loan Originator has reasons to question the accuracy of the applicant's self-certification or bank statements, the Loan Originator sends Form RD 1944-62, Request for Verification of Deposit, to financial institutions to verify account balances.

Paragraph 4.3 Source of Income

Verification of Gifts Preferred Source	If funds needed for the purchase will be provided by <u>an organization</u> or another person <u>not living in the household</u> , the Loan Originator must send the donor Form RD 3550-2, Request for Verification of Gift/Gift Letter, to verify whether the gift must be repaid and whether the funds have already been transferred. Form RD 3550-2 is used to verify gifts that are non-recurring and intended for down payment or closing costs purposes only.
Verification of Recurring Gifts Preferred Source	For recurring gifts, if there is no history of the gift being received prior to application and the gift amount is needed to establish the applicant has repayment ability, the Loan Originator must determine and document that the gift is stable and dependable.
DEDUCTIONS	
Type of Expense or Verification Source	Verification Requirements and Procedures
Disability Assistance Expenses Preferred Source	To qualify for disability deductions, the applicant must describe the nature of the expense, provide documentation of the costs, and demonstrate that the expense enables a family member to work. If the household member receives a form of income because of a verified disability (such as social security disability or disability compensation), that may be used as a method to verify the disability. Otherwise, Form RD 1944-4, Certification of Disability or Handicap, or other 3 rd party documents prepared by a physician or other medical professional should be used to verify the household member's disability.
Medical Expenses Preferred Source	For elderly households only, allowable medical expenses may be deducted from annual income. Therefore, documentation of medical expenses is not generally required for non-elderly households. In such cases, these medical expenses must be verified as well. Appendix 8 provides a sample format for documenting medical expenses. Note: while medical expenses are an allowable deduction from annual income, medical expenses/debts must not be considered in the total debt ratio when calculating repayment ability.
Child care Expenses	Reasonable child care expenses may be deducted from annual income. To qualify for the deduction, the applicant must: <ul style="list-style-type: none"> • Identify the children receiving child care and the family member who can work or go to school as a result of the care; • Demonstrate there is no adult household member available to care for the children; • Identify the child care provider, hours of care provided, and costs (e.g., letter on the child care provider's letterhead or a copy of a signed child care contract); and • Identify the educational institution and provide documentation of enrollment (if appropriate). Appendix 8 provides a sample format for requesting child care information.

1. Timing

Documentation used to verify employment, income, assets, and deductions must be no more than 120 days old, or 180 days old for new construction, by closing date. If any of the verification documents are older than allowed, the Loan Originator must update them before settlement. For example, if you have four paystubs to verify 30 days of income, the oldest paystub must be within 120 days (or 180 days for new construction) from date of closing to be valid. The age of certain documents, such as divorce decree and tax returns, do not necessarily affect the validity of the underwriting decision. These types of documents are exempt from the document age restriction unless there is evidence that the applicant's circumstances have changed thus warranting updated verifications.

2. Projecting Expected Income for the Next 12 Months

Once an income source is verified, the Loan Originator must project the expected income from this source for the next 12 months. This projection should be based on a comparison and analysis of the figures derived from using all applicable calculation methods. To establish earning trends and avoid miscalculating income, all four methods should be considered; however, some income sources will only lend themselves to one method (such as; seasonal income, retirement benefits, supplemental security income (SSI) or social security benefits). If all four methods are not used, the Loan Originator must document why. In some cases, there may be multiple types of income generated from one source (overtime, bonus, hourly); therefore, the income calculation method used will depend on the type of income received, rather than the source of income. The four calculation methods are:

- Straight-based where the benefit or wage amount is converted to the annual equivalent. This method is most appropriate when the hourly rate/number of hours worked, or the fixed weekly/monthly income is known and typically does not vary.
- Average where the income as reported on the benefit statements or pay stubs for the last 30 days is averaged and then converted to the annual equivalent. This method is most appropriate when the wage rate/type (overtime, shift differential, SSI, etc.) or the number of hours worked vary from paycheck to paycheck.

Paragraph 4.3 Source of Income

- Year-to-date (YTD) where the YTD gross earnings are divided by the YTD interval, which is the number of calendar days elapsed between January 1 of the current year and the last date covered by the most recent income verification, and then multiplied by 365. The earning activity during the YTD interval should be closely examined to determine the appropriateness of this method. Do not use this method if the earning activity during the YTD interval is insufficient to make an annual projection or is not reflective of the likely earning activity for the period outside the YTD interval (the time between the last date covered by the most recent income verification and December 31 of the current year).
- Historical where the income as reported on the previous year's tax return is used. Any declining income trend, especially for repayment income, must be carefully document in the underwriting analysis.

If the applicant receives a fixed income, such as social security benefits, it is not necessary to calculate all four methods. In the case of a fixed income, it would be appropriate to calculate the straight based and historical methods. If the two methods do not match (perhaps because of an increase in benefits for the current year), document the file accordingly. For seasonal and self-employment, consider two years of historical records to include wages and unemployment. It is not necessary to calculate the other three methods since you should not rely on paystub verification and the applicant may have multiple employers, making it difficult to verify from all sources. For all other incomes, calculate the four methods and compare the results. If there appear to be discrepancies, ask the applicant for additional information. For instance, if last year's income is \$10,000 more than what was calculated using year to date information, ask the applicant if they have had a change in their hourly rate, number of hours declined or perhaps if their overtime is typically earned at the end of the year and is not yet reflected in the paystub. Document the results of the applicant interview and select the most appropriate income calculation after analyzing the data.

After the Loan Originator determines the suitable methods and performs the calculations, he/she must determine which figure is most representative of income likely to be received during the next 12 months. If the figures are disparate and one figure is not clearly the most representative, an average of the resulting figures may be used. Selecting the lowest figure without analysis is not acceptable. The selection must be carefully deliberated and may require additional verification.

Example - Projecting Expected Income for the Next 12 Months

Ken Anderson has worked for B & N Auto for the last two years. According to the application, Mr. Anderson reported that he earns \$10/hour, works 40 hours per week. Since Mr. Anderson is paid weekly, he submitted his last four pay stubs through the pay period ending May 1st that show gross pay (including overtime) of \$460, \$415, \$475, and \$445. His most recent paystub reflects gross YTD earnings of \$5,885. Mr. Anderson's tax return for last year showed gross wages of \$16,640.

Straight-based: Base pay: $\$10/\text{hour} \times 40 \text{ hours/week} \times 52 \text{ weeks/year} = \$20,800$

Average: $(\$460 + \$415 + \$475 + \$445) / 4 \times 52 \text{ weeks/year} = \$23,335$

YTD: $(\$5,885 / 121 \text{ days}) \times 365 = \$17,752$

Historical: \$16,640

Looking at the four results, there is no clear earning pattern. The Loan Originator should investigate further to determine why significant discrepancies exist between the calculation methods and what figure should be used. Is B & N experiencing an unusual and temporary large workload? Was Mr. Anderson absent from work for an extended period of time? Did Mr. Anderson recently receive a pay increase? Do his recent paystubs include overtime earnings? These are just a few examples of the questions that should be answered.

NOTE: These calculations should be documented using the Worksheet for Computing Income and Maximum Loan Amount Calculator and included in the Electronic Customer File (ECF).

3. Income of Temporarily Absent Family Members

Household members may be temporarily absent from the household for a variety of reasons, such as temporary employment or students who live away from home during the school year. The income of these household members is considered when computing annual income and, if the person is a party to the note, for repayment income.

If the absent person is not considered a member of the household and is not a party to the note, the Loan Originator must not count their income, must not consider them when determining deductions for adjusted income, and must not consider them as a family member for determining which income limit to use.

Paragraph 4.3 Source of Income

Examples - Temporarily Absent Family Member

James Brown and his wife have applied for a loan. At the moment, James is working on a construction job on the other side of the State and comes home every other weekend. He earns \$600/week and uses approximately one-third of that amount for temporary living expenses. The full amount of the income earned would be counted for both repayment and annual income.

Adam Watson works as an accountant. However, he suffers from a disability that periodically requires lengthy stays at a rehabilitation center. When he is confined to the rehabilitation center, he receives disability payments equaling 80% of his usual income. During the time he is not in the unit, he will continue to be considered a family member. Even though he is not currently in the unit, his total disability income will be counted as part of the family's annual income.

Desirae Bitz accepts temporary employment in another location and needs a portion of her income to cover living expenses in the new location. The full amount of the income must be included in annual income.

Terri Glass is on active military duty. Her principal residence is her parents' home where her husband and children live. Terri is not currently exposed to hostile fire. Therefore, because her spouse and children are in the parents' home, her military pay must be included in annual income.

4.4 CALCULATING ANNUAL AND ADJUSTED INCOME

Adjusted income is used to determine eligibility for the Section 502 and 504 programs, as well as eligibility for and the amount of payment subsidies under Section 502.

A. Calculating Annual Income

Annual income is used as the base for computing adjusted income. Income of all household members, not just parties to the note, should be considered when computing annual income.

B. Calculating Deductions from Annual Income

Adjusted income is calculated by subtracting from annual income any of 5 deductions that apply to the household. Not all households are eligible for all deductions. Exhibit 4-2 summarizes these deductions. The remainder of this paragraph provides guidance on determining whether a family is eligible for each deduction and verifying and calculating these amounts.

Exhibit 4-2 Allowable Deductions from Annual Income		
Deduction	Elderly Households	Nonelderly Households
Dependent Deduction	Yes	Yes
Child Care Expenses	Yes	Yes
Elderly Household	Yes	No
Medical Expenses	Yes	No
Disability Assistance	Yes	Yes

C. Dependent Deduction

A deduction from annual income of \$480 is made for each household member who qualifies as a dependent. Dependents are members of the household who are not the borrower, co-borrower, or spouse, are age 17 or younger, are an individual with a disability, or are a full-time student. The applicant/borrower, co-applicant/co-borrower, or spouse of applicant/borrower (even if the household member is temporarily absent) may never qualify as a dependent. A foster child, an unborn child, a child who has not yet joined the family, or a live-in aide may never be counted as a dependent.

Paragraph 4.4 Calculating Annual and Adjusted Income

D. Child Care Expenses

Reasonable unreimbursed child care expenses for the care of children age 12 and under are deducted from annual income if:

- (1) the care enables a borrower or household member to work or go to school;
- (2) no other adult household member is available to care for the children; and
- (3) in the case of child care that enables a household member to work, the expenses deducted do not exceed the income earned by that household member. This limitation does not apply if the child care allows a household member to go to school.

If the child care provider is a household member, the cost of the children's care cannot be deducted.

Child care attributable to the work of a full-time student (except for applicant/borrower, co-applicant/co-borrower, or spouse of applicant/borrower) is limited to not more than \$480, since the employment income of full-time students in excess of \$480 is not counted in the annual income calculation. Child care payments on behalf of a minor who is not living in the household cannot be deducted.

To qualify for the deduction, the applicant must:

- Identify the children who are receiving child care and the family member who can work, seek employment or go to school (academic or vocational) as a result of the care;
- Demonstrate there is no adult household member available to care for the children during the hours care is needed;
- Identify the child care provider, hours of child care provided, and costs;
- Verify the expense is not reimbursed by an agency or individual outside the family; and
- If the expenses enable a family member to go to school, identify the educational institution. The family member need not be a full-time student.

Verification of Child Care Expenses

Child care hours must parallel the hours the family member works or goes to school. Appendix 2 provides a sample format applicants can use to document child care. Other acceptable formats include a letter on the child care provider's letterhead or a copy of a signed child care contract.

**Example – Child Care Deduction
Separate Expenses for Time at Work and Time at School**

Lou and Bryce have two children. Both parents work, but Lou works only part-time and goes to school half-time. She pays \$4 an hour for eight hours of child care a day. For four of those hours, she is at work; for four of them she attends school. She receives no reimbursement for her child care expense.

Her annual expense for child care during the hours she works is \$4,000 and at school is \$4,000. She earns \$6,000 a year. Bryce earns \$18,000.

Lou's child care expense while she is working cannot exceed the amount she is earning while at work. In this case, that is not a problem. Lou earns \$6,000 during the time she is paying \$4,000. Therefore, her deduction for the hours while she is working is \$4,000.

Lou's expense while she is at school is not compared to her earnings. Her expense during those hours is \$4,000 and her deduction for those hours will also be \$4,000.

Lou's total child care deduction is \$8,000 (\$4,000 + \$4,000). The total deduction exceeds the amount of Lou's total earnings, but the amount she pays during the hours she works does not exceed her earnings. If Lou's child care costs for the hours she worked were greater than her earnings, she would not be able to deduct all of her child care costs.

Paragraph 4.4 Calculating Annual and Adjusted Income

E. Elderly Household Deduction

A single \$400 deduction is subtracted from annual income for any elderly household. To be considered an elderly household, a party to the note must be 62 years of age or older or an individual with a disability. Because this is a “family deduction” each household receives only one deduction, even if more than one member is elderly or disabled.

In the case of a family where the deceased applicant/borrower or spouse was at least 62 years old or an individual with disabilities, the surviving family member shall continue to be classified as an “elderly household” for the purposes of determining adjusted income if:

Typical Disability Expenses

- Care attendant to assist an individual with disabilities with activities of daily living directly related to permitting the individual or another family member to work.
- Special apparatus, such as wheelchairs, ramps, adaptations to vehicles or workplace equipment, if directly related to permitting the individual with disabilities or another family member to work.

- At the time of death of the deceased family member, the dwelling was financed by the Agency;
- The surviving family member occupied the dwelling with the deceased family member at the time of death; and
- The surviving spouse (if any) has not remarried.

F. Deduction for Disability Assistance Expense

Families are entitled to a deduction for un-reimbursed, anticipated costs for attendant care and “auxiliary apparatus” for each family member who is a person with disabilities, to the extent these expenses are reasonable and necessary to enable any family member 18 years of age or older who may or may not be the member who is a person with disabilities (including the member who is a person with disabilities) to be employed. The applicant must describe the nature of the expense, provide documentation of the costs, and demonstrate that the expense enables a family member to work. Reasonable documented expenses for care of the individual with disabilities in excess of 3 percent of annual income may be deducted from annual income if the expenses:

- Enable the individual with disabilities or another family member to work;
- Are not reimbursable from insurance or any other source; and
- Do not exceed the amount of earned income included in annual income by the person who is able to work as a result of the expenses. If the disability assistance enables more than one person to be employed, the combined incomes of all persons must be included.

To qualify for this deduction, applicants must identify the individual with a disability on the application. If the household member receives a form of income because of a verified disability (such as social security disability or disability compensation), that may be used as a method to verify the disability. Otherwise, Form RD 1944-4, Certification of Disability or Handicap, or other 3rd party documents prepared by a physician or other medical professional, should be used to verify the individual's disability from a physician or other medical professional.

Example – Eligible Disability Assistance Expenses

The payments made on a motorized wheelchair for the 42-year-old son of the applicant/borrower enable the son to leave the house and go to work each day on his own. Prior to purchase of the motorized wheelchair, the son was unable to make the commute to work. These payments are an eligible disability assistance expense.

NOTE: Auxiliary apparatus includes, but is not limited to, items such as wheelchairs, ramps, adaptations to vehicles, or special equipment to enable a sight-impaired person to read or type, but only if these items are directly related to permitting the disabled person or other family member to work. If the apparatus is not used exclusively by the person with a disability, the total cost must be prorated to allow a specific amount for disability assistance.

- **Include payments on a specially equipped van to the extent they exceed the payments that would be required on a car purchased for transportation of a person who does not have a disability.**
- **The cost of maintenance and upkeep of an auxiliary apparatus is considered a disability assistance expense (e.g., veterinarian and food costs of a service animal; cost of maintaining equipment that is added to a car, but not the cost of maintaining the car).**

Payments to a care attendant to stay with a disabled 16-year-old child allow the child's mother to go to work every day. These payments are an eligible disability assistance expense. When the same provider takes care of children and a disabled person over age 12, prorate the total cost and allocate a specific cost to attendant care. The sum of both child care and disability assistance expenses cannot exceed the employment income of the family member enabled to work.

NOTE: Attendant care includes, but is not limited to, expenses for home medical care, nursing services, housekeeping and errand services, interpreters for hearing-impaired, and readers for persons with visual disabilities.

Paragraph 4.4 Calculating Annual and Adjusted Income

Example – Calculating a Deduction for Disability Assistance Expenses

Applicant/Borrower earned income	\$14,500
Co-Applicant/Co-Borrower earned income	<u>+\$12,700</u>
Total Income	\$27,200
Care expenses for disabled 15-year-old	\$ 3,850
Calculation:	\$ 3,850
(3% of annual income)	<u>-\$ 816</u>
Allowable disability assistance expenses	\$ 3,034

(NOTE: \$3,034 is not greater than amount earned by co-applicant/co-borrower, who is enabled to work.)

G. Deduction for Medical Expenses (for Elderly Households Only)

Medical expenses may be deducted from annual income for elderly households if the expenses: (1) will not be reimbursed by insurance or another source; and (2) when unreimbursed medical expenses, which can be combined with any disability assistance expense, are in excess of 3 percent of annual income.

If the household qualifies for the medical expense deduction, expenses of the entire family are considered. For example, if a household included the head (grandmother, age 64), her son (age 37), and her granddaughter (age 6), the medical expenses of all 3 family members would be considered. Note: while medical expenses are an allowable deduction from annual income, medical expenses/debt must not be considered in the total debt ratio when calculating repayment ability.

Examples - Typical Medical Expenses

- Services of physicians, nurses, dentists, opticians, chiropractors, and other health care providers
- Services of hospitals, laboratories, clinics, and other health care facilities
- Medical, Medicaid, supplemental insurance and long-term care premiums, and expenses to Health Maintenance Organization (HMO); such as, co-payments
- Prescription drug coverage, pharmacy expenses, and nonprescription medicine prescribed by a physician
- Dental expenses, x-rays, fillings, braces, extractions, dentures, and examinations
- Eyeglasses, contact lenses, and eye examinations
- Medical or health products or apparatus (hearing aids, batteries, wheelchairs, etc.)
- Attendant care or periodic medical care (visiting nurses or assistance animal and its upkeep)
- Periodic scheduled payments on accumulated medical bills
- The greater of the actual travel costs for medical appointments or the published Internal Revenue Service standard medical mileage rate. (<https://www.irs.gov/tax-professionals/standard-mileage-rates>)

Examples - Excluded Medical Expenses

- Unnecessary cosmetic surgery to improve the patient's appearance such as face lifts, hair transplants/removal, and liposuction
- Health Club or YMCA dues, steam baths for general health or to relieve physical or mental discomfort not related to a particular medical condition
- Household help even if recommended by a doctor
- Medical savings account (MSA)
- Nutritional and herbal supplements, vitamins, and "natural medicines" unless these can be obtained legally only with a physician's prescription
- Non-prescription medications unless prescribed by a physician for a particular medical condition (e.g., acid reflux medication can be taken without a prescription which would be an excluded expense, but a physician may also prescribe it which could then be included)
- Personal use items (such as toothpaste, toiletries, cosmetics, etc.) unless used primarily to prevent or alleviate a physical or mental defect or illness
- Life Insurance
- Funeral or Burial Plot expenses

Paragraph 4.4 Calculating Annual and Adjusted Income

One of the most challenging aspects of determining allowable medical expenses is estimating a household's medical expenses for the coming year. While some anticipated expenses can be documented easily (for example, Medicare or other health insurance premiums and ongoing prescriptions), others need to be estimated. The Loan Originator should use historical information about medical bills to estimate future expenses. However, the estimates should be realistic. For example, if the household has a significant medical bill, the Loan Originator would count only that portion of the bill that is likely to be paid during the coming year.

Example - Calculating the Medical Expense Deduction

The Jensons are an elderly household with annual income of \$25,000 and anticipated medical expenses of \$3,000 that are not covered by insurance or another source. The allowable medical expenses would be:

Total Medical Expenses	\$3,000
(less) 3% Annual Income	\$750
(\$25,000 x 0.03)	
Allowable Medical Expenses	\$2,250

Example – Medical Expense Paid over a Period of Time

Chynna Ray and Justin Grog did not have insurance to cover Justin's operation four years ago. They have been paying \$105 a month toward the \$5,040 debt. Each year that amount

(\$105 x 12 months or \$1,260) has been included in total medical expenses. A review of their file indicates that a total of \$5,040 has been added to total medical expenses over the four-year period. Over the four-year period they have missed five payments and still owe \$525. Although they still owe this amount, the bill cannot be included in their current medical expenses because the expense has already been deducted.

H. Calculating Repayment Income

Repayment income is the amount of the household's income that is available to repay the Agency's debt. To compute repayment income, the Loan Originator should count only the income of persons who will be parties to the note.

The Standard PITI and TD ratio limitations assume that applicant income is taxable. If a particular source of income is not subject to Federal taxes, for example, certain types of disability payments or military allowances, the amount of continuing tax savings attributable to the nontaxable income source **will** be added to the applicant's repayment income.

Nontaxable income, such as Housing Choice Vouchers, social security, child support, or alimony payments (if the instrument was executed or modified after 12/31/18), will be multiplied by 120 percent to "gross up" such income (provided the nontaxable income is stable and is expected to continue for at least two years).

Example – "Grossing Up" Nontaxable Income

The applicant's repayment income of \$22,000 includes \$5,000 of nontaxable income.

The revised repayment income for the applicant would be calculated as follows:

\$17,000	Taxable income
<u>+ 6,000</u>	"Grossed-Up" Nontaxable Income (\$5,000 x 1.2)
\$23,000	Revised Repayment

Under current tax law some State and local issuers of mortgage bonds may issue MCC to provide a Federal income tax credit to assist low-income home buyers and home owners. The credit permits an eligible household to claim a specific percentage of the annual interest paid on a mortgage as a tax credit rather than a deduction. If an applicant will receive the credit, the benefit of the credit will be "grossed up" for the repayment ability income calculation as described in Paragraph 4.4 H of this Chapter when the applicant adjusts their Federal tax withholdings via IRS Form W-4 to reflect the decrease in their tax liability. MCCs are issued through private lenders and rarely encountered in the 502 Direct program.

SECTION 2: EVALUATING BORROWER ASSETS [7 CFR 3550.54(d)]

4.5 OVERVIEW OF POLICIES RELATED TO ASSETS

Assets affect an applicant's ability to obtain a loan in 2 ways. First, applicants may be required to use non-retirement assets to make a down payment covering some of the costs of purchasing a home. Second, many types of assets generate income that must be included in the calculations of annual and repayment income.

An applicant's assets are considered for annual and repayment income, as well as for down payment purposes, as applicable. The cash value of all household members assets is considered for annual income and down payment purposes, as applicable, but shall be excluded from repayment income. Asset documentation may also provide useful information for loan underwriting. Exhibit 4-3 presents a list of assets that must be considered when making these determinations and also identifies certain types of assets that are not considered.

Exhibit 4-3 Types of Assets

The following types of assets must be considered.

Non-retirement assets including:

- Savings accounts; the average 2-month balance of checking accounts; safe deposit boxes;
- The average 2-month balance of a Social Security debit card (i.e., Direct Express card)
- Stocks, bonds, Treasury bills, savings certificates, money market funds, and other investment accounts;
- Equity in real property or other capital investments;
- Revocable trust funds that are available to the household;
- Lump-sum receipts, such as inheritances, capital gains, lottery winnings and settlement on insurance claims (including health and accident insurance, worker's compensation, and personal or property losses);
- Assets held in foreign countries; and
- Personal property (such as jewelry, coin collection or antique cars) held as an investment.

The following types of assets are not considered.

- The value of necessary items of personal property, such as furniture, clothing, cars, wedding rings and other jewelry not held as an investment, and vehicles specially equipped for persons with disabilities;
- Assets that are part of any business, trade, or farming operation in which any member of the household is actively engaged;
- The value of an irrevocable trust fund, or the value of any trust over which no member of the household has control;
- Assets that can only be used toward a specific expense and cannot be converted to cash (i.e. SNAP benefits);
- The cash value of life insurance policies;
- Interests in American Indian restricted land;
- The value of tax advantaged health, medical savings or spending accounts, and college savings plans; and
- For income calculations, any assets on hand that will be used to reduce the amount of loan.
- Retirement asset and income earned on retirement accounts, from interest, dividends, or capital gains when funds can only be accessed by retiring, terminating employment, loaning against the account, or withdrawing with penalties is never considered as repayment or annual income.

Example – Assets that are Part of an Active Business

Megan and Tylar Wasson own a copier and courier service. None of the equipment that they use in their business is counted as an asset (e.g., the copiers, the fax machines, the bicycles).

A. Reporting Assets

Applicants must provide information about household assets at the time of loan application and whenever an income determination is made. Applicants must provide sufficient documentation to enable the Loan Originator to verify the asset information and compute the market and cash value of the asset. Applicants must provide assets documentation as required on Paragraph 4.3 regardless of the balance or value of the assets disclosed. In addition, Form RD 3550-4, Employment and Asset Certification, will be used to confirm the level of the household's combined net assets.

B. Verification of Assets

Copies of bank or brokerage company statements provide more information than just account balances. The transaction history reveals recurring deposits or debits that may impact the applicant's ability to qualify for a loan. Assets statements must cover account activity for the most recent two-month period (or, if account information is reported on a quarterly basis, for the most recent quarter). Loan originators must:

- Confirm that the applicant has enough funds for closing.
- Obtain a credible explanation from the applicant regarding the source of funds for any large, recurring deposits or increase in the account balance that are not attributed to wages or earnings. A large deposit may be the proceeds from a new personal loan not yet reported to the credit bureaus or indicate an unidentified income source.

C. Calculating Market and Cash Value

The **market value** of an asset is simply its dollar value on the open market. For example, the market value of \$2,000 in a savings account is \$2,000 and the market value of real estate is its appraised value. The **cash value** of an asset is the market value, less reasonable expenses to convert the asset to cash. For example, the cash value of stock worth \$5,000 would be \$5,000 less any broker's fee.

Paragraph 4.5 Overview of Policies Related to Assets

D. Retirement Assets

Retirement assets are savings and investments that have been specifically designated as retirement funds. Access to retirement assets is restricted by law, employer policy, or both, depending on the retirement arrangement's legal form. Typical restrictions include retirement age, vesting requirements, and ability to access funds.

Typical Retirement Plans

- Employer-sponsored retirement plans: 401(k), 403(b), 457 plans, employer and employee association trust accounts, money purchase plans, profit-sharing plans, SEP-IRAs (Simplified Employee Pensions) and SIMPLE IRAs (Savings Incentive Match Plans for Employees).
- Individual Retirement Arrangements (IRAs): Traditional IRA, Roth IRA, and Keogh plans.

Example – Withdrawals from IRAs or 401(k) Accounts

Jim Dunn retired recently. He has an IRA account but is not receiving periodic payments from it because his pension is adequate for his routine expenses. However, he has withdrawn \$2,000 for a trip with his children. The withdrawal is not a periodic payment and is not counted as income.

4.6 LIMITATIONS ON ASSETS

If the cash value of non-retirement assets is greater than \$15,000 for nonelderly households or \$20,000 for elderly households, the cash value in excess of these amounts must be used toward the purchase of the property. See Paragraph 6.10 B of this Handbook for list of eligible asset uses.

Applicants will not be required to use retirement assets as a down payment, regardless of their retirement status.

4.7 CALCULATING INCOME FROM ASSETS FOR ANNUAL INCOME

For the purpose of computing annual income, the cash value of all non-retirement assets of all applicants and co-applicants, as well as all household members (adults and children), are considered. Reference Exhibit 4-1 of this Chapter for additional information.

Form RD 3550-4, Employment and Asset Certification should be used to certify the cash value of the household's family assets.

4.8 CALCULATING INCOME FROM ASSETS FOR REPAYMENT INCOME

When calculating assets for repayment income, only the assets of the note signers are considered, and the actual income derived from the assets, which are determined stable and dependable, are used.

Note: for non-retired applicants income earned on a retirement account, from interest, dividends, or capital gains when funds can only be accessed by retiring, terminating employment, loaning against the account, or withdrawing with penalties is never considered for annual or repayment income.

SECTION 3: CREDIT HISTORY [7 CFR 3550.53(h)]

4.9 OVERVIEW

To be eligible for a Section 502 loan, applicants must demonstrate that they are reasonably able and willing to repay an Agency loan. This section discusses the credit requirements, the additional credit checks, how to conduct the full credit history review, when to use Form RD 1944-61, and the criteria for making credit exceptions.

4.10 CREDIT REQUIREMENTS

The Loan Originator must evaluate the credit history of each proposed party to the note. An applicant's credit record does not have to be perfect; a few instances of credit problems can be acceptable if an applicant's overall credit record demonstrates an ability and willingness to repay obligations. Exhibit 4-4 of this Chapter outlines indicators of unacceptable credit that must be investigated by the Loan Originator. These indicators are not automatic disqualifiers. The Loan Approval Official can make exceptions in limited circumstances, as described in Paragraph 4.14 of this Chapter.

The Loan Originator must investigate indicators of unacceptable credit to determine whether they are accurate, and whether there is an acceptable explanation for the problem that might justify an exception. Failure to understand the nature of a credit problem could put the Agency at risk of providing financing to an applicant who is unable or unwilling to repay the debt or could cause the Agency to reject an applicant on the basis of inaccurate or incomplete information.

Cosigners

Cosigners must meet the same credit-worthiness requirements as applicants and cannot be used to compensate for an applicant's unacceptable credit history.

For instance, an applicant with little or no credit history reflected on a credit report will require further examination. Since some creditors do not report to the credit repositories, the Loan Originator should identify nontraditional credit sources to develop a credit history. Nontraditional credit information that may demonstrate the applicant's ability and willingness to meet debt obligations should be verified using the guidelines in Paragraph 4.12 of this Chapter, which include third party verifications from impartial and unrelated parties, canceled checks that cover a sufficient period of time, or other acceptable means.

Exhibit 4-4

Indicators of Unacceptable Credit

- Little or no credit history. The lack of credit history on the credit report may be mitigated if the applicant can document a willingness to pay recurring debts through other acceptable means such as third-party verifications or canceled checks. Due to impartiality issues, third party verifications from relatives of household members are not permissible.
- Payments on any installment account, (on a per account basis, not cumulative of any and all of these account types), where the amount of the delinquency exceeded one installment for more than 30 days within the last 12 months.
- Payments on any revolving account, (on a per account basis, not cumulative of any and all of these account types), which was delinquent for more than 30 days on two or more occasions within the last 12 months.
- A foreclosure that has been completed within the last 36 months.
- An outstanding Internal Revenue Service (IRS) tax lien or any other outstanding tax liens with no satisfactory arrangement for payment.
- Two or more rent or mortgage payments paid 30 or more days late within the last 2 years. If the applicant has experienced no other credit problems in the past 2 years, only 1 year of rent history will be evaluated. This requirement may be waived if the program loan will reduce shelter costs significantly and contribute to improved repayment ability.
- Outstanding collection accounts with a record of irregular payments with no satisfactory arrangements for repayment, or collection accounts that were paid in full within the last 6 months, unless the applicant had been making regular payments previously.
- Non-Agency debts written off within the last 36 months, unless the debt was paid in full at least 12 months ago.
- Agency debts that were debt settled within the past 36 months or are being considered for debt settlement.
- Delinquency on a federal debt.
- A court-created or court-affirmed obligation or judgment caused by nonpayment that is currently outstanding (see Paragraph 8.5 of this Handbook regarding required clearance or approval upon closing), or has been outstanding within the last 12 months, **except**:
 - ◇ A bankruptcy in which:
 - ◇ Debts were discharged more than 36 months prior to the date of application; or
 - ◇ Where an applicant successfully completed a bankruptcy debt restructuring plan and has demonstrated a willingness to meet obligations when due for the 12 months prior to the date of application.
 - ◇ A judgment satisfied more than 12 months before the date of application.

An applicant with an outstanding judgment obtained by the United States in a Federal court, other than the United States Tax Court, is not eligible for a Section 502 loan. This requirement is statutory and cannot be waived.

If an applicant's credit history is unacceptable, the Loan Originator should counsel the applicant about the specific problems identified, and ways to improve the household's credit record for the future. The Loan Originator should make it clear that establishing a pattern of meeting obligations that conforms to the Agency's standards might make it possible for the applicant to qualify for a Section 502 loan in the future.

The Loan Originator must use consistent standards and procedures when evaluating credit qualifications to ensure equity and fairness. Special areas of concern include:

- Determining what constitutes acceptable documentation;
- Counseling applicants about ways to correct adverse credit; and
- Interpreting subjective information.

4.11 CONDUCTING ADDITIONAL CREDIT CHECKS

Over and above ordering a Tri-Merge Credit Report (TMCR), the Loan Originator should check the Department of Treasury's Do Not Pay (DNP) Portal and LoanServ's "SSN CROSS REFERENCE" softlink key.

A. Do Not Pay Portal

The Do Not Pay (DNP) Portal is used to prevent Fraud, Waste, and Abuse of federal dollars. Except in very unusual circumstances, an applicant who is delinquent on a Federal debt is not eligible for the direct programs. The Loan Originator can verify whether the applicant has delinquent Federal debt through the DNP Portal.

Rural Development staff should visit the Agency's DNP SharePoint page for more information on using the DNP Portal, sources to be screened, required documentation, available training, FAQ's, etc.: https://usdagcc.sharepoint.com/sites/rd_cfo/icd/DoNotPay/SitePages/Home.aspx

Paragraph 4.11 Conducting Additional Credit Checks

The Credit Alert System (CAIVRS) is checked through the DNP Portal. An applicant that will be party to the loan must have a clear “A” CAIVRS response.

The Loan Originator should add the required DNP documentation to the applicant’s ECF to document that the applicant’s delinquency status has been checked.

**Exceptions to
Delinquent Federal Debt**

If the applicant has a delinquent Federal debt, the Administrator has the authority to grant an exception if arrangements for payment have been made and it is in the best interest of the Government.

If DNP indicates that the applicant is not eligible for Federal assistance, the Loan Originator should notify the applicant of the result from the DNP Portal and provide the debt agency name and debt agency telephone number from the DNP Portal if applicable, as a point of contact for the applicant to resolve the delinquency (do not provide screen shots or printouts to the applicant). If the applicant does not notify the Agency within 30 days that the problem has been resolved, the Loan Approval Official must reject the application and the applicant should be notified in writing using Handbook Letter 15. The application should be fully processed, and the denial letter should include any delinquent federal debt and all other reasons for denial. The Administrator may grant an exception to this requirement if it is in the best interest of the Government.

If any delinquency is paid in full or if evidence of satisfactory payment arrangement with the reporting agency has been reached with a 6-month history of payments can be provided within the 30-day time frame, application processing can continue. If the applicant resolves the issue after the application has been rejected, and wishes to reapply, the applicant must submit a new application, which must be processed according to the new submission date.

B. Infile Credit Report

Infile credit reports can only be used for pre-qualification reviews completed by Agency staff, which should be limited as outlined in Section 1 of Chapter 3.

Infile credit reports will not be obtained for 502 direct packaged loan applications, as the packager is responsible for conducting the review. The only credit report pulled by the Agency will be a TMCR when a complete 502 direct application is received.

Infile credit reports will be obtained by the Agency for all 504 applicants with adjusted income greater than 30% of adjusted median income, regardless of the size of the loan being requested.

Since infile credit reports for pre-qualifications and TMCRs for complete applications are considered a hard inquiry on the applicant’s credit report, care must be taken to avoid unnecessary orders. Do not order an infile credit report to confirm that a debt has been paid or for other similar reasons and do not order an infile credit report once an application has been received.

4.12 CONDUCTING FULL REVIEW OF CREDIT HISTORY

Once an application is selected for processing, the Loan Originator must order a tri-merge credit report through UniFi. When an incomplete application packet and credit report fee have been received, the Loan Originator will order the tri-merge credit report through UniFi as long as, at a minimum, Form RD 3550-1, Authorization to Release Information has been received. Otherwise, the fee must be returned to the applicant if it cannot be deposited within 3 business days of receipt.

Helpful Hint

Unless the applicant makes a written request for a copy of their tri-merge credit report, the Agency will not provide a copy. Applicants are not entitled to a copy of their infile credit report that may have been pulled during the pre-qualification process.

A credit report from another party (e.g. Self-Help Grantee, loan application packager, or leveraged lender) cannot be used in the Agency's decision-making process. The Loan Originator must also obtain the applicable third-party credit verifications to determine whether the applicant's credit history meets the Agency's criteria.

Procedures for obtaining third-party verifications are described in Paragraph 3.15. Guidelines for reviewing the applicant's credit history are provided here.

If an applicant is denied assistance based upon information contained in a tri-merge credit report, the Agency must provide the applicant:

- The name, address, and toll-free number of the credit bureau;
- A statement to the applicant that the denial of their loan request was made by the Agency, and not the credit bureau;
- Notice of their right to obtain a free copy of their credit report from the credit bureau within 60 days from the date of the Agency's adverse action; and
- Notice of the applicant's right to dispute to the credit bureau the accuracy or completeness of the credit report provided to the Agency.

Paragraph 4.12 Conducting Full Review of Credit History

A. Tri-Merge Credit Report

The Tri-Merge Credit Report (TMCR) will include Equifax Beacon 5.0, TransUnion FICO Risk Score 04, and Experian Fair Isaac v2 credit scores, if available. The report will include data from the three main repositories, updated verifications on all trade lines with a balance (updated to within 90 days), and a court records check that includes adverse items for the prior 7-year period. The TMCR will also provide the results of a check against the U.S. Department of the Treasury's Office of Foreign Assets Control (OFAC) database. OFAC administers and enforces economic and trade sanctions against targeted foreign countries, terrorists, international narcotics traffickers, and those engaged in activities related to the proliferation of weapons of mass destruction. If an OFAC match message appears on the TMCR, refer to the U.S. Treasury website at <https://ofac.treasury.gov/> for guidance on how to determine if the match is valid. If a due diligence review concludes that the match is valid, the applicant should be denied assistance and referred to the OFAC contact number for further information as per the aforementioned website. If there is no OFAC match message on the TMCR, or the match was not valid, processing may continue as directed in the following paragraphs.

For applicants with no outstanding judgments obtained by the United States in a Federal court, with no significant delinquency, and who have more than one credit score listed on their TMCR that result in a credit score of 640 or higher on their TMCR, Exhibit 4-4 need not be used to identify indicators of unacceptable credit handling. In addition, a verification of rent and Form RD 1944-61, Credit History Worksheet, need not be completed. These applicants are automatically classified as having acceptable credit histories regardless of what is listed on the TMCR. To avoid potential disparate treatment, additional credit analysis is not appropriate. Credit scores are used to reduce the time necessary to conduct credit analyses, **but under no circumstance can credit scores be used to make adverse decisions.**

An applicant with significant delinquency on the credit report, even with a credit score of 640 or higher, will be subject to further credit analysis and Form RD 1944-61 must be completed. Significant delinquency includes the following:

- A foreclosure, deed-in-lieu of foreclosure, short sale, or mortgage charge-off that has been completed within the last 36 months.
- A Chapter 7 bankruptcy discharged less than 36 months prior to the application date.

- A Chapter 13 bankruptcy where the applicant has not successfully completed the debt restructuring plan and has not demonstrated a willingness to meet obligations when considering the last 12-month payments made under the restructuring plan.
- Agency debts that were debt settled within the past 36 months or are being considered for debt settlement.

Having an insufficient credit score does not mean the applicant has demonstrated inability or unwillingness to repay debt; it means the Loan Originator must obtain nontraditional credit sources to make this determination and use Form RD 1944-61, Credit History Worksheet to conduct the credit analysis. To preclude the use of Exhibit 4-4 to identify indicators of unacceptable credit handling, the following practice will be established:

- If the three credit scores are listed on the TMCR, the middle numerical score should be used.
- If the TMCR only contains two scores, the lower of the two should be used.
- If the TMCR only contains one score, a full credit analysis must be completed.
- If no score is available, the credit bureau will report a “zero.” Zero in these cases has the literal meaning of null, or indicating there was not enough information or credit references for the statistical model to compute a credit score value.
- If there is more than one applicant, each applicant must be viewed separately.
- Loan Originators must obtain nontraditional credit verifications to augment a credit report if the applicant has less than two scores. However, non- traditional credit must never be used to enhance the credit of an applicant with a negligent credit history (poor payment history, excessive use of credit, over the credit limit balances, etc.) or to offset derogatory references found in the applicant's traditional credit report, such as collections and judgments, even if the traditional credit is insufficient.

If the resulting credit score is less than 640 and the TMCR contains any indicators of unacceptable credit as outlined in Exhibit 4-4, the Loan Originator should discuss the findings with the applicant and ask for third-party verifications that support the applicant’s assertions. A copy of the TMCR must be retained in the case file. If the TMCR is expected to be more than nine months old when the underwriting decision is to be made or at the time of closing, a new report must be ordered at no cost to the applicant.

Paragraph 4.12 Conducting Full Review of Credit History

Credit Score	# of Scores	Form RD 1944-61 “Credit History Worksheet” required?	Additional information needed
Any score, with a judgment obtained in U.S. Federal Court (other than a U.S. Tax Court)	n/a	Yes. Application must be denied.	N/A
640 or above, no significant delinquency	>1	No. This qualifies as streamlined processing & does not need to be evaluated for indicators of unacceptable credit.	N/A
Any other score (640 and above with significant delinquency, 640 or below)	>1	Yes	<ul style="list-style-type: none"> - If score < 640 and indicators of unacceptable credit exist, need 3rd party verifications to support applicant’s explanation. - For significant delinquencies, if not shown on credit report, need 3rd party documentation to confirm applicable dates, 12-month payment history for Ch. 13 bankruptcy, etc. - If only 1 score (whether above or below 640), develop credit history from at least 3 sources (can be combination of traditional and nontraditional). However, only 2 sources are required if 1 of those is a verification of rent or mortgage payments.
No Score	n/a		<ul style="list-style-type: none"> - Develop credit history from at least 3 sources (can be combination of traditional and nontraditional). However, only 2 sources are required if 1 of those is a verification of rent or mortgage payments.

B. Fair and Accurate Credit Transactions

In accordance with the Fair and Accurate Credit Transactions (FACT) Act of 2003, the Agency is required to disclose to the applicant, upon request, the score that a credit bureau distributed and was used in connection with their loan. In addition, we are required to disclose the key factors affecting the applicant’s credit scores. Therefore, Attachment 3-H, Credit Score Disclosure, must be provided to the applicant. It must be explained to the applicant that the credit score was not used to determine loan approval. The Agency only uses the credit score to presume acceptable credit in lieu of other credit underwriting practices.

Consumers have the right to dispute information on their credit report, which they believe to be inaccurate. This can be done directly with the furnisher of credit, as well as a consumer reporting agency. Generally, disputes are investigated by the consumer reporting agency(s) within 30 to 45 days of receipt of the notice of dispute from the consumer; and written results of the investigation are provided to the consumer within 5 business days after completion of the investigation. For more information visit <https://www.ftc.gov/> and <http://www.consumerfinance.gov/askcfpb/>.

- **Non-Derogatory Disputed Accounts:**

If the applicant has a non-derogatory disputed account, the Loan Originator can determine the non-derogatory disputed account acceptable and proceed with underwriting. The disputed account is considered non-derogatory if one of the following apply:

- The disputed account has a zero balance;
- The disputed account states “paid in full” or “resolved” on the credit report;
- The disputed account with late payments are aged 24 months or greater;
- The disputed account is current and paid as agreed.

The applicant must provide the Agency with applicable documentation to support the reason and basis of the dispute with the creditor. The Loan Originator must determine the impact of the disputed account on the repayment of the proposed mortgage debt. The Loan Originator must include the minimum monthly payment stated on the credit report, five percent of the balance of the account, or the amount documented from the creditor for each account.

- **Derogatory Disputed Accounts:**

Disputed derogatory credit accounts refer to disputed charge-off accounts, disputed collection accounts, and disputed accounts with late payments in the last 24 months.

The Agency’s credit determination may be subject to change upon resolution of the derogatory disputed account. The Loan Originator must determine the impact of the disputed accounts on the repayment of the proposed mortgage debt. The Loan Originator must include the minimum monthly payment stated on the credit report, five percent of the balance of the account, or the amount documented from the creditor for each account. The Loan Originator may issue Form RD 1944-59, Certificate of Eligibility, subject to the receipt of the disputed resolution prior to approval.

Paragraph 4.12 Conducting Full Review of Credit History

The following disputed accounts can be excluded from consideration in the underwriting analysis:

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

The FACT Act also added a new section to the Fair Credit Reporting Act to prohibit creditors from obtaining or using medical information pertaining to a consumer in connection with any determination of the consumer's eligibility, or continued eligibility, for credit.

Consumer reporting agencies are prohibited from providing a lender with a credit report that contains identifying information for medical debts (be it a collection, judgment, etc.). The name of the medical service provider and the nature of the medical service is suppressed or coded so that lender decisions are not based on discriminatory factors. However, suppression or coding of identifying information for medical debts does not eliminate the need for consideration. Medical debts that are chronically late, placed in collection, or turned into judgments remain indicators of unacceptable credit handling that must be addressed (unless the applicant has a credit score of 640 or higher).

Since the indicators of unacceptable credit handling are general guidelines that aid in determining the degree of risk and are not absolute underwriting criteria, the Loan Originator must subjectively consider the circumstances that resulted in the blemished debt. If the identifying information for a medical debt is suppressed or coded and the applicant is claiming that the debt resulted from a situation that was beyond their control, the applicant must provide adequate third-party documentation to support their claim.

If the applicant cannot identify the medical debt given the payment information (date opened, balance owing, etc.), the applicant will have to contact the repository directly to obtain a copy of their credit report. Credit reports provided by a repository directly to a consumer will not have the medical information suppressed. To avoid a fee, the applicant can obtain a free credit report by calling 1-877-322-8228 or logging into <https://www.annualcreditreport.com>. Individuals may receive one free credit file disclosure every week from each of the nationwide consumer credit reporting companies – Equifax, Experian and TransUnion.

An exception cannot be granted on that the applicant's assertion that they were unaware of the blemished debt or that the blemished debt is not theirs. Supporting documentation must be furnished before a Loan Approval Official considers granting an exception.

C. Other Credit Verifications

If, and only if, the applicant's credit score is less than 640, the Loan Originator should send Form RD 1944-60, Landlord's Verification, and may send Form RD 410-8, Applicant Reference Letter, as applicable to the parties indicated in the application. The forms should be accompanied by a preaddressed, pre-stamped envelope and Form RD 3550-1, Authorization to Release Information, which authorizes the respondent to release the information.

1. Verification of Rent

Form RD 1944-60, Landlord's Verification may be used to verify the applicant's past record of making timely rental payments. The Loan Originator should generate separate copies of Form RD 1944-60 for each landlord listed on the application for the past 2 years. A landlord's verification is required when the applicant's credit score is less than 640.

If the landlord reports that during the past 24 months (or whatever is applicable) the applicant "always pays by the due date" and is current on the rent, the applicant's rental history should be considered satisfactory. If the landlord reports that the applicant "pays over 30 days late" or "generally stays behind schedule," or if the applicant is currently behind on the rent, the Loan Originator should follow up with a call to the landlord.

The rental payment history may also be verified by obtaining the past 24 months of canceled checks, money order receipts, or electronic payment confirmation reflecting payments were made directly to the landlord.

Confirmation that the applicant has paid 2 or more rent payments 30 or more days late within the last 2 years generally would be an indicator of unacceptable credit. However, if the amount of rent paid by the applicant was significantly higher than the likely cost of principal, interest, taxes and insurance (PITI) with a Section 502 loan, an exception might be appropriate.

2. Applicant Reference Letter

Form RD 410-8 is used to obtain information about an applicant's credit history that might not appear on a credit report, for example, credit from a local store. It can be used to document an ability to handle credit effectively for applicants who have not used sources of credit that appear on a credit report. It also provides a mechanism for following up on repayment history for debts reported by the applicant on the application that do not appear on the credit report.

3. Non-Traditional / Alternative Credit

For applicants who do not use traditional credit, or that have less than two credit scores, the Loan Originator must develop a credit history from at least three sources. However, only two sources are required if one of those is a verification of rent or mortgage payments.

Paragraph 4.12 Conducting Full Review of Credit History

A combination of traditional and nontraditional sources may be used to develop the credit history; and the non-traditional payments should have been made for at least 12 months within the past 24 months from the date of the credit report.

Loan Originators must verify that the providers of nontraditional credit exist, and confirm that the applicant, in fact, has credit history with the creditor. Payments made to relatives for credit sources are ineligible as a nontraditional credit reference.

- **Verification of a Nontraditional Credit Provider:** To verify the credit provider information, Loan Originators must use a published address or telephone number for that creditor, such as listing in the yellow pages.
- **Confirming the Existence of a Nontraditional Credit:** Documentation to confirm that the nontraditional credit exists, and that the applicant has sufficient credit references to evaluate his/her ability and willingness to repay debt may include a sufficient payment history from the following sources:
 - ◇ **Preferred Sources:** Rental housing; utilities (if not included in the rent payment); telephone service, cable television, and internet service; insurance payments (payroll deductions to pay for insurance premiums are not considered alternative credit). These expenses must not be included in the Total Debt (TD) ratio when calculating repayment ability.
 - ◇ **Alternative Sources:** Payments to child care providers (provided the provider is an established child care business); school tuition; payments to local retail stores; storage units companies; monthly subscriptions (e.g., Hulu, Netflix, Xbox, etc.); payment arrangements for the uninsured portion of any medical bills; a history of saving by regular deposits resulting in a balance equal to three months of the proposed mortgage payments; and similar credit sources. Debts that are obligatory, when credit was not extended to the applicant (such as child support, alimony, garnishments, court ordered debts), are not eligible non-traditional credit tradelines.

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

The payment history may be obtained by sending Form RD 410-8, Applicant Reference Letter, to the nontraditional creditors indicated by the applicant or by obtaining canceled checks, money order receipts, billing statements, and/or payment history print-outs from the creditor. Loan Originators should carefully evaluate the billing statements to establish the payment history (past due amounts, late payment charges) for the Loan Approval Official's review. General statements such as "satisfactory" or "in good standing" are not sufficient to establish a satisfactory repayment history.

The payment history should cover 12 months within the past 24 months from the date of the application. However, other payment installments (such as quarterly or annually) can be considered when verifying nontraditional credit sources. When other payment installments are used, the length of the payment history should be adjusted accordingly. If the payments are made quarterly, verify that the last four payments were made. If the payments are made annually, verify that at least the last two payments were made.

D. Non-Purchasing Spouse Credit History

In community property states, the non-purchasing spouse's obligations must be considered in the total-debt ratio to determine the applicant's purchasing capacity, unless excluded by State law. However, the non-purchasing spouse's credit history is never considered a reason to deny a loan application. The Loan Originator must comply with applicable lending laws in community property states.

To assist the Agency in verifying the non-purchasing spouse's obligations, and since UniFi will allow the ordering of credit reports on applicants only, the applicant's non-purchasing spouse must provide a copy of a credit report (or reports) which contains information from each of the nationwide consumer credit reporting companies – Equifax, Experian, and TransUnion. The application will be considered incomplete until this information is provided. Ideally, the non-purchasing spouse will be able to furnish a copy of their free report obtained through <https://www.annualcreditreport.com>. The provided report (or reports) cannot be more than nine months old when the underwriting decision is to be made or at the time of closing. The Housing Program Director may waive this requirement on a case-by case if obtaining the non-purchasing spouse's credit report isn't feasible. For instance, the non-purchasing spouse is not a citizen or is an emancipated minor. The non-purchasing spouse's obligations will be evaluated in the same way the applicant's debts are evaluated and in accordance with the guidance in Paragraph 4.22.B of this Chapter. Unless excluded by State law, judgments of a non-purchasing spouse in a community property state will be paid in full unless an exception is obtained from the Loan Approval Official.

Paragraph 4.12 Conducting Full Review of Credit History

Community property states include: Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington and Wisconsin. Puerto Rico allows property to be owned as community property as do several Indian jurisdictions. Alaska is an opt-in community property state, where property is separate unless both parties agree to make it community property through a community property agreement or a community property trust. As laws vary from state to state, Loan Originators should contact the appropriate Office of General Counsel with questions regarding the consideration of a non-purchasing spouse's credit history.

Exhibit 4-5**Guidelines for Evaluating Credit Reports**

- Different credit bureaus or repositories present information in different formats. Be familiar with the different formats and take time in reviewing the report to avoid errors.
- Obtain clarification of any questionable items or terms (for example, terms such as “slow” or “late pay” have varied meanings). No decisions should be made until the terms in question are translated into defined terms (e.g., for this repository, “slow pay” means 30 days late). Document clarification of terms in the casefile.
- Upon receiving the credit report, verify the name, address, and Social Security Number.
- Compare the employment information and rental data on the credit report, if available, with the information on the application.
- Compare the remainder of the credit report to the application. Consider the following questions when reviewing the application.
 - ◇ Are all the accounts reported on the credit report listed on the application? (Note: There may be additional accounts on the application that are not on the credit reports because not all creditors furnish information to a credit bureau or repository.)
 - ◇ Does any of the information on the credit report contradict the application?
 - ◇ What information indicates unacceptable credit? List late payments, charge offs and other relevant information.
 - ◇ Does the credit report have accounts included in a consumer credit counseling program? If so, document a 12-months repayment history under the plan with all payments made on time and the applicant has written permission from the counseling Agency to enter into a mortgage transaction.
 - ◇ Are there any disputed accounts?
 - ◇ Is the applicant responsible for the trade line or an authorized user? An authorized user account may not be considered when determining the applicant's creditworthiness unless the applicant provides supporting documentation to demonstrate that they have made the monthly payments for the past 12 months.
- If the credit report reflects no credit history, ask the applicant for other nontraditional credit that may demonstrate a willingness to pay recurring debts like rent, utilities, phone, medical, etc. Third party verifications from impartial and unrelated parties or canceled checks that cover a sufficient period of time are acceptable forms of documentation.
- Review the number and dates of credit inquiries. The presence of many and recent credit inquiries in different industries may indicate that the applicant is looking for credit to finance purchases. Confirm that the applicant has not obtained new credit that is yet to be reflected in the credit report.
- Highlight areas of concern and develop a list of questions or issues that need clarification from the applicant.

4.13 CREDIT HISTORY WORKSHEET

If the applicant does not have more than one credit score listed on their TMCR that results in a credit score of 640 or higher, Form RD 1944-61, Credit History Worksheet, must be used to summarize the applicant's credit history and to determine whether there are any indicators of unacceptable credit as outlined in Exhibit 4-4. The Loan Originator should complete this form and include it in the case file to aid the Loan Approval Official in reviewing the applicant's credit history. The Loan Approval Official must confirm the completeness and accuracy of this form before making a credit decision.

4.14 ASSESSING ADVERSE CREDIT

A. Making Exceptions

The Loan Originator should review the credit history for any signs of unacceptable credit using the criteria outlined in Exhibit 4-4. Credit history problems may be more reflective of an inability than an unwillingness to meet financial obligations. However, derogatory credit may also be the result of extenuating circumstances causing a significant reduction in income and/or increase in financial obligations. Extenuating circumstances are events beyond the applicant's control and unlikely to reoccur. The applicant must provide a letter to explain the nature of the event that led to the derogatory credit and provide supporting documentation accordingly. The Loan Approval Official must carefully review the documentation provided by the applicant to confirm that the adverse credit was in fact due to extenuating circumstances (e.g. the dates of the derogatory credit must be consistent with the dates of the event) and not financial mismanagement. The loan file must include an underwriting analysis explaining the rationale for the credit exception and determination that the events causing the financial difficulties were, in fact, beyond the applicant's control and are unlikely to reoccur.

The Loan Approval Official may consider an exception in the following types of situations.

- **Reduced shelter costs.** The applicant's rental or mortgage payment history has been unacceptable, and the loan will significantly reduce the applicant's shelter costs, which will result in improved debt repayment ability. Anticipated utility cost savings due to energy efficiency improvements (e.g. furnace replacement, insulation, energy efficient windows, etc.) may also be considered a reduced shelter cost for an existing homeowner.
- **Temporary situation.** The circumstances that caused the credit problems were temporary in nature and beyond the applicant's control. Examples include loss of job, delay or reduction in benefits, illness, or dispute over payment of defective goods or services.

Paragraph 4.14 Assessing Adverse Credit

- **Benefit to the Government.** The applicant is delinquent on a Federal debt, and the Agency loan will allow the applicant to take actions that benefit the Government. **This type of exception can only be made by the Administrator.**

The Loan Approval Official is not authorized to make an exception in the case of an applicant with an outstanding judgment obtained by the United States in a Federal court, other than the United States Tax Court.

B. Reviewing Significant Delinquencies

1. Chapter 7 Bankruptcy

A Chapter 7 bankruptcy, also known as liquidation bankruptcy, eliminates all of an individual's unsecured debt. Applicants with a Chapter 7 bankruptcy discharged more than 36 months prior to the loan application are not considered to have unacceptable credit as long as they have re-established good credit. Re-establishing good credit includes consistently making payments on time, not incurring additional or excessive debt, and keeping balances significantly below the credit limit.

If the bankruptcy has been discharged less than 36 months from the date of application, the Loan Approval Official may make a credit exception if the bankruptcy was due to extenuating circumstances and the applicant has been able to re-establish good credit since the factors leading to the extenuating circumstance were removed. The loan file must include the loan documentation requirements for making a credit exception using extenuating circumstances.

2. Chapter 13 Bankruptcy

A Chapter 13 bankruptcy is a repayment plan that protects individuals from collection action during the plan period, from three to five years, and discharges any unpaid balance at the end of the plan. The repayment amount is determined by the court based on the individual's income. An applicant with a Chapter 13 Bankruptcy reported on the credit profile may be able to qualify for a loan if the following requirements are met:

- Successful completion of the debt restructuring plan. The completion date is the bankruptcy discharge date; and
- Demonstrate willingness to meet obligations when due for the 12 months prior to the date of application. The last 12-month payments made under the bankruptcy restructuring plan may be used to document the applicant's willingness to repay debt. This means that all required payments were made on time and for the amount agreed upon under the plan.

A Chapter 13 bankruptcy is not considered unacceptable credit, and a credit exception is not required, when the aforementioned requirements have been met. However, the applicant must obtain written permission from the Bankruptcy Court to enter into a financial obligation with the Agency.

3. Significant Mortgage Delinquency

A foreclosure is a significant mortgage delinquency. Other significant mortgage delinquencies are deeds-in-lieu of foreclosure, short sales, and mortgage charge-offs. These are significant mortgage delinquency events that, when present in the credit report,

drastically increase the risk of a loan and must be carefully considered in the loan risk analysis when reviewing the loan application. For any significant mortgage delinquency transaction, the Loan Originator must confirm that the applicant has been completely released from the previous mortgage liability and is not responsible for any deficiency judgement. The following describes the most common significant mortgage delinquency actions reported to the credit bureaus that are used as an alternative to a formal foreclosure because they reduce the time and cost of repossessing a property and borrowers avoid the public notoriety of a foreclosure:

- **Deed-in-lieu of Foreclosure.** In a “deed-in-lieu of foreclosure” transaction the borrower voluntarily transfers the property rights back to the creditor in an exchange for a mortgage cancellation. These transactions are most common when the property subject to the potential foreclosure has positive equity or if the homeowner meets the requirements for financial hardship relief.
- **Short Sale.** Short sale is a term used to describe a sale where the debt owing against a property combined with the costs associated with the sale exceeds the property’s market value. Short sales are also known as pre-foreclosure sales because the lender has not completed the foreclosure process but plans to foreclose if the property is not sold by the homeowner under the terms approved by the lien holders. Depending on the short sale agreement, the applicant may still be responsible for the amount that “fell short” as a result of the short sale transaction. The loan deficiency remaining after the sale is typically forgiven; however, this is not always the case.
- **Mortgage Charge-Off.** A mortgage charge-off is a debt classification used by creditors when they believe a mortgage debt is not collectible. This action does not mean that the debt is no longer valid or that has been forgiven. An applicant with a mortgage charge-off reported on the credit report may still be responsible for the debt.

If the significant mortgage delinquency was due to the applicant’s failure to meet financial obligations, the applicant is not eligible for a loan for 36 months from the date the obligation was released. However, if the delinquency was due to extenuating circumstances, the applicant may be eligible for a loan if:

- More than 12 months have elapsed between the date the applicant was released from the mortgage debt and the application date; and,
- The applicant has demonstrated an ability and willingness to meet obligations when due for the 12 months prior to the date of application; and,
- The circumstances leading to the delinquency are properly documented and justified.

Paragraph 4.14 Assessing Adverse Credit

Selling a home through a short sale merely because the property value decreased significantly is not an extenuating circumstance.

4. Agency debts that were debt settled within the past 36 months or are being considered for debt settlement.

C. Resolving Collection Accounts

Paying an outstanding account is not, in itself, justification to say the applicant has demonstrated a willingness to meet obligations. Payment of a collection account could deplete the applicant's cash resources that could be used for reserve or closing costs. The Loan Approval Official may determine it is not necessary to pay a collection account if there is evidence that the account does not affect the Agency's first lien position. If there were extenuating circumstances to the adverse credit, the Loan Approval Official may determine that the late payments are not reflective of the applicant's ability to meet financial obligations or manage debts. All extenuating circumstances must be documented on the Credit History Worksheet.

SECTION 4: OTHER ELIGIBILITY REQUIREMENTS

4.15 OWNING A DWELLING

A 502 borrower may not have outstanding RD direct or guaranteed loans at the same time on two or more homes. An applicant who owns a dwelling generally is not eligible for a Section 502 loan, except for refinancing assistance, as described in Paragraph 6.5 B of this Chapter. However, if the applicant's dwelling is structurally unsound, functionally inadequate, or too small to accommodate the needs of the household, funds may be provided to improve the existing dwelling or to purchase a new one.

The following are examples where the Agency can assist an applicant in the purchase of a new home provided, they meet all other eligibility criteria, and the existing property is properly handled

- An applicant lives adjacent to an industrial operation. The business's operations result in vibrations that have caused the foundation of the applicant's home to severely shift causing cracks in the home and an unsafe living condition.
- An applicant lives in a two-story dwelling which is not accessible to a household member with a disability.
- An applicant lives in a manufactured home that is not affixed to a permanent foundation.
- An applicant is dealing with an overcrowded situation now that their family has grown (i.e., there are more than two household members per bedroom).

The existing property must be (1) sold prior or simultaneously/same day as the Agency's loan closing and the proceeds in excess of the program's asset threshold are used for a down payment or used for allowed purposes; or (2) the sale of the home is a loan closing condition. Form RD 3550-7, Funding Commitment and Notification of Loan Closing and the closing documents must clearly state that the Agency will place a lien (i.e., judgment lien) against the existing property. The amount of the lien placed against the property is based on the current market value, minus typical closing costs, minus the program's asset threshold. If the property is sold, future proceeds from the sale in excess of the program's asset threshold are to be used as a principal reduction. Taxes and insurance payments and any long term debt obligation against the existing property are considered in the total debt ratio.

4.16 ABILITY TO OBTAIN OTHER CREDIT

To be eligible, the applicant must be unable to obtain credit from other sources on terms and conditions they can reasonably be expected to fulfill. All applicants are presumed to be unable to obtain credit from other sources unless all four conditions apply: (1) the household is Low income; (2) all applicants have a credit score that is 640 or higher; (3) payment assistance is not needed and (4) applicants have a one year employment history (two years for self-employed applicants).

If the applicant(s) meets all four conditions, the Loan Approval Official should request the applicant to provide written documentation from a lender that they are unable to obtain credit for the same loan amount as they would obtain from Rural Development, without regard to the interest rate, closing costs or payment. If the applicant can obtain financing from other sources for the same loan amount or greater, the applicant is deemed to have the ability to obtain other credit.

Applicants must reduce the need for credit by using available non-retirement assets, as described in Section 2. In addition, applicants should be encouraged to obtain a portion of the needed funds in the form of affordable housing products.

4.17 OCCUPYING THE PROPERTY [7 CFR3550.53(C)]

To be eligible for a Section 502 loan, applicants must agree and have the ability to occupy the dwelling as their principal residence. A dwelling is considered a principal residence when physically occupied by the owner on a permanent basis (i.e. lives there for the majority of the year and is the address of record for such activities as Federal income tax reporting, voter registration, occupational licensing, etc.).

4.18 LEGAL CAPACITY [7 CFR3550.53(e)]

To be eligible for a loan, the applicant must be considered an adult under State law, and must have the legal capacity to incur the loan obligation. An applicant with a court-appointed guardian or conservator who is empowered to obligate the applicant in real estate matters is eligible for a loan. The Loan Originator should assume that any applicant has the legal capacity to enter into the loan unless there is evidence to the contrary.

4.19 SUSPENSION OR DEBARMENT [7 CFR3550.53(f)]

Individuals who have been suspended or debarred from participation in Federal programs are not eligible for Agency assistance.

4.20 CITIZENSHIP STATUS [7 CFR 3550.53(b)]

To be eligible for Agency assistance, the applicant must be a U.S. citizen, a U.S. non-citizen national, or a qualified alien and provide acceptable evidence of eligible immigration status. Any applicant who is not a U.S. citizen, a U.S. non-citizen national, or a qualified alien will be denied assistance. Aliens and alien non-citizen nationals must provide acceptable evidence that they are qualified aliens as listed in Attachment 4-D of this Chapter.

The Rural Development has entered into an “Interagency Agreement” with the Department of Homeland Security, U. S. Customs and Immigration Service (USCIS) to allow access to the Systematic Alien Verification for Entitlements (SAVE) database. This program enables Housing Program staff to obtain online immigration status information to determine a non-citizen applicant’s program eligibility. In most cases, SAVE will provide immediate responses concerning the immigration status of an applicant.

4.21 TRUTHFUL APPLICATION

Applicants must provide truthful information when applying for assistance. Any inconsistencies discovered throughout the application process must be addressed. The Loan Originator must obtain sufficient documentation to verify the applicant’s identity.

Documentation will include picture identification (ID), evidence of age, and evidence of the taxpayer’s identification number for each person that will sign the promissory note. A photocopy of these documents shall be placed in the case file. Acceptable forms of identification include a driver’s license, passport, work related ID cards, or similar documents. If photographic ID is not available, the Loan Originator must thoroughly document why it is not available and how identity of the applicant was verified. In addition, if the applicant’s taxpayer identification number is not included on the picture ID, another means of documentation is required to verify the taxpayer’s identification number such as a copy of the social security card, a pay stub, or a bank statement. Applicants who provide false information, or who fail to disclose relevant information, will be denied program assistance.

If Form RD 410-4, Uniform Residential Loan Application, indicates the applicant is a U.S. citizen, no additional due diligence is generally required unless there is a reason to believe the applicant is not a U.S. citizen, such as a Social Security card that reads “work only”. **Always** require evidence if Form RD 410-4 indicates that the applicant is a qualified alien.

Non-citizen nationals are persons born in American Samoa or Swains Island or after the date the U.S. acquired American Samoa or Swains Island, or a person whose parents are U.S. non- citizen nationals. **Always** require evidence of this relatively uncommon status.

SECTION 5: PROCESSING THE CERTIFICATE OF ELIGIBILITY

4.22 DETERMINING REPAYMENT ABILITY [7 CFR3550.53(g)]

The primary consideration in determining whether an applicant can afford to purchase a home is the applicant's repayment income. Repayment income, as described in Paragraph 4.4 H. of this Chapter, is the amount of income parties to the note will have available to repay the debt.

However, other household expenses and debts and the availability of payment subsidies also greatly affect an applicant's repayment ability. The Agency bases underwriting decisions on an analysis of the percentage of income the applicant would be required to spend on housing costs and the applicant's Total Debt (TD) if the loan is approved. Using these 2 percentages, called ratios, is a standard practice throughout the lending industry. Borrowers must meet the Agency's standards for both ratios.

Maximum Ratios

PITI Ratio	33%
TD Ratio	41%

A. The PITI Ratio

The PITI ratio compares the amount the applicant must spend on housing costs (including Principal on the loan, Interest on the loan, real estate Taxes, and property Insurance) and flood Insurance (as applicable) to the applicant's repayment income. The leveraged loan payment is included in PITI.

Example - Calculating PITI Ratios

\$360	Principal and Interest payments
\$ 50	Taxes
\$ 10	Flood Insurance
<u>\$ 50</u>	<u>Insurance</u>
\$470	Total for PITI
\$18,000	Annual Repayment Income
\$ 1,500	Monthly Repayment Income (\$18,000 ÷ 12)
PITI Ratio = \$470 ÷ \$1,500 = 31.33%	
Taxes: Must be on full assessed value	

For new construction, the fully assessed tax amount will be used to determine repayment ability. Applicants are considered to have repayment ability if they do not have to pay more than 33 percent of repayment income for PITI expenses.

B. The TD Ratio

1. Maximum TD Ratio

The TD ratio compares the applicant's total debt to repayment income. Applicants are considered to have repayment ability when they do not have to spend more than 41 percent of repayment income on total debt.

2. Establishing TD

Total debt includes PITI, all long-term (non-medical) obligations, and short-term (non-medical) obligations that have a significant impact on repayment ability. The following items should be counted:

- PITI -- Principal, Interest, Taxes, and Insurance (including leverage loan payments).
- Regular assessments, such as homeowner association or condominium assessments.
- Long-term installment obligations with more than 10 months repayment remaining, including loans, alimony, and child support (including back child support payments), but excluding revolving accounts. Funds borrowed from a retirement account are excluded since the applicant is repaying a loan to themselves. In the event an applicant does not repay the loan as agreed, the debt is reported as taxable income during that tax year but will be treated as sporadic income. All medical debts (be it a collection, judgment, etc.) are excluded.
- Payments that come due in the next 12 months.
- Deferred debt regardless of the length of the deferment period. If the credit report does not reflect the anticipated monthly payment due at the end of deferment, the Loan Originator should obtain verification of the monthly payment directly from the creditor or request a copy of the loan agreement from the applicant.

Paragraph 4.22 Determining Repayment Ability [7 CFR 3550.53(g)]

- Student loan payments. The Loan Originator must use the actual monthly payment under the existing repayment plan (as verified by the lender) if (1) the loan is in repayment status, (2) the applicant has a credit score of 640 or higher (620 or higher for 504 applicants), (3) the applicant has no significant delinquency as outlined in Paragraph 4.14 B., and (4) the applicant's payment shock can be measured and is not more than 100%. If all four conditions are met and the applicant who is responsible for the student loan has, for example, a \$0 monthly payment because they are on an income-driven repayment plan, there will be no student loan payment considered in the TD ratio. The State Office may grant a case- by-case waiver to any condition if the overall risk assessment on the application warrants it and is well documented in the casefile. If all four conditions are not met or a waiver has not been granted, the higher of the monthly student loan payment listed on the credit report or one-half percent (.50%) of the student loan balance must be used in the TD ratio.
- Short-term obligations that are considered to have a significant impact on repayment ability, such as car or other credit payments. All medical debts (including medical collections) are excluded.
- The minimum monthly payment required for revolving credit card debts using the following applicable approach: 1) Use \$0 if the credit report indicates no outstanding balance. 2) Use the minimum monthly payment as reflected on the credit report if the credit report indicates an outstanding balance and a minimum monthly payment. 3) Use 5 percent of the outstanding balance if the credit report indicates an outstanding balance but no specific minimum monthly payment or obtain a copy of the most recent billing statement that reflects the actual monthly payment and use that amount if lower. 4) If the credit report indicates an outstanding balance but the applicant indicates that it will be (or has been) paid in full, a monthly payment will not be used provided the Loan Originator obtains documentation of payment in full.

- Debt from which the applicant has not been released need not be counted if the applicant can demonstrate that another party has assumed responsibility for the debt and the creditor is paid directly. The debt does not need to be a joint account originally in order to be excluded from the ratios, as long as the debt has been paid directly to the creditor for at least 12 months. For example, if a divorced applicant can show that the former spouse has made the last 12 months of mortgage payments directly to

Example - Calculating TD Ratios	
\$300	Principal and Interest payments
\$ 60	Taxes
<u>\$ 50</u>	<u>Insurance</u>
\$410	PITI Subtotal
\$300	Car payment
<u>\$100</u>	<u>Payments on credit card debt</u>
\$810	Total Debt
\$25,000	Annual Repayment Income
\$ 2,083	Monthly Repayment Income (\$25,000 ÷ 12)
TD Ratio = \$810 ÷ \$2,083 = 38.89%	

the lender, the mortgage payments on that property need not be counted when establishing total debt. If the payments are paid directly to the applicant, the payments are counted as recurring gift income and the payment will be included in the ratios.

- Contingent liabilities. If the applicant is a cosigner on a loan or any other obligation, the debt must be included in the TD ratio. The Loan Originator should never omit a credit report liability with a balance greater than zero from the loan application unless strong supporting documentation is provided to evidence that the primary signer has been making on time payments during the previous 12 months.
- If the applicant recently obtained additional credit, verify the terms of the new obligation and include the monthly payment in the total debt ratio.

C. Determining the Maximum Loan Amount

The Loan Originator enters information provided by the applicant about household size, income and debts, and general program information, including the Maximum loan limit and median income for the area. Because a specific dwelling has not yet been identified, estimates can be used for taxes, insurance, and purchase-related costs. Once this information is entered, UniFi:

- Computes the PITI and TD ratios;
- Determines whether the applicant is eligible for payment subsidy, and how much payment subsidy the applicant would receive; and

Paragraph 4.22 Determining Repayment Ability [7 CFR 3550.53(g)]

- Computes the maximum loan amount for which the applicant qualifies, first using standard loan terms and then using any adjusted terms for which the applicant may qualify. Once a property is identified, if the adjusted term is not necessary than the loan should be closed using the standard loan term.
- The Loan Originator will print as a PDF and digitally sign the estimated UniFi Eligibility Summary and place it in the Electronic Customer File (ECF).

D. Using Market Data to Interpret UniFi Results

Each Field Office should collect and maintain sales information for each market area in its jurisdiction. By comparing the results of an applicant's maximum loan calculation to market data, Loan Originators can provide appropriate counseling for applicants and identify candidates for 100 percent private financing or leveraged loans. MLS and comparable sales data collected through appraisals are valuable sources of market information.

4.23 RESERVED**4.24 OTHER CONSIDERATIONS RELATED TO MAXIMUM LOAN AMOUNTS**

The maximum loan amount that the applicant qualifies for as shown on the Eligibility Summary generated from UniFi may be too low to enable the applicant to purchase a property that meets program standards. Exhibit 4-6 of this Chapter outlines the procedure on how to handle this situation.

Conversely, the maximum loan amount and the resulting payment may be too high, setting the stage for payment shock.

This paragraph provides guidance on additional financial resources and compensating factors that the Loan Originator should consider to improve the applicant's purchasing ability only and concludes with a discussion on payment shock.

Exhibit 4-6**Establishing a Minimum Area Loan Amount**

Each Field Office should set, following the methodology provided by their State Office, a minimum loan amount in each area that is “clearly less than” the amount needed to purchase a decent, safe, and sanitary dwelling in that area. For example, if a county’s area loan limit is \$265,000, but based on an examination of properties financed by the Agency in that county during the last 12 months shows that the lowest amount of financing needed to purchase a decent, safe, and sanitary home was \$75,000, a minimum loan amount of \$60,000 may be set. Consideration should be made for properties with a purchase price below the minimum loan amount parameters when, if repaired (using loan funds or other means), would provide a decent, safe, and sanitary dwelling. For example, the Minimum Area Loan Limit is \$60,000, the applicant signs a purchase agreement for \$55,000; however, the local housing authority is providing repair funds to replace the roof and furnace in the amount of \$15,000. The Field Office should consider financing the property, since the repair funds will bring the property value above the minimum area loan limit.

If the applicant does not qualify for the minimum loan amount and the Loan Originator has concluded that compensating factors are not applicable and adding a party to the application is not viable, the Loan Approval Official must sign and send Handbook Letter 15 (3550), Standardized Adverse Decision Letter, to the applicant along with Attachment 1-B. The letter should state that the applicant’s qualifying loan amount (be sure to enter that amount) is not sufficient to meet the program’s purpose as outlined in the 7 CFR Part 3550, Paragraph 3550.2.

A. Using Compensating Factors

Exceptions to the standard method of determining repayment ability may be made if there is information -- called compensating factors -- that indicates the prospective borrower may be able to make larger regular loan payments than the ratio analysis suggests. Compensating factors must be clearly documented in the applicant’s case file.

All compensating factors must be approved by the next level supervisor. To obtain approval, the Loan Originator must prepare a written request that supports the use of compensating factors, and the higher amount requested. The Loan Originator should forward the request and case file to the next level supervisor for approval.

Some of the compensating factors that can affect the amount of debt an applicant is permitted to have are discussed below:

1. Payment History

The PITI and TD ratio analyses assume that households are able to contribute a specified percentage of income toward housing costs. However, if an applicant has historically paid a greater share of income for housing with the same income and debt level, a higher payment may be approved. Utility and maintenance costs must be considered as part of this analysis.

Paragraph 4.24 Other Considerations Related to Maximum Loan Amounts

2. Savings History

Applicants with accumulated savings and a savings history that shows a capacity to set aside a larger-than-average portion of income may be approved for a higher payment.

3. Job Prospects

If an applicant has recently entered a profession in which they can expect significant pay increases, the Loan Originator may base repayment income on the anticipated future earnings of that applicant.

Similarly, if overtime income is available to increase the applicant's income, the Loan Originator may project the household's income with extra overtime included.

4. Homes Constructed Under Specific Energy Efficiency Programs

A new home built to exceed the prevailing International Energy Conservation Code is more energy efficient, which significantly lowers the homeowner's utility costs. The lower utility costs associated with these energy efficient homes indicate that a prospective borrower will be able to make larger loan payments than the ratio analysis suggests.

Given their resulting energy efficiency savings of up to 30 percent relative to typical new homes, as well as their progressive and routinely updated building standards, new homes constructed under the following national programs will be considered as a compensating factor:

- Energy Star for New Homes under the U.S. Environmental Protection Agency (<https://www.energystar.gov/newhomes>)
- Zero Energy Ready Home under the U.S. Department of Energy (<https://www.energy.gov/eere/buildings/zero-energy-ready-homes>)
- Leadership in Energy and Environmental Design (LEED) for Homes under the U.S. Green Building Council: ([US Green Building Council's Leadership in Energy and Environmental Design \(LEED®\) | US EPA](#))
- Home Innovation's "National Green Building Standard" under the National Association of Home Builders <https://www.nahb.org/advocacy/industry-issues/sustainability-and-green-building>)

**Example - Using Savings History
As A Compensating Factor**

An applicant is currently paying \$400 per month in rent and putting \$175 per month in a savings account. Utility costs should be similar to those the applicant is currently paying, but maintenance costs will be about \$50 per month higher. According to ratios, the applicant's repayment ability is \$500 per month. However, since the applicant is currently using a total of \$575 per month for a combination of rent and savings, a loan that requires a monthly payment of up to \$525 (\$575-\$50) may be considered.

- Green Communities under the Enterprise Community Partners: (<https://www.enterprisecommunity.org/impact-areas/resilience/green-communities>)
- Passive House under the Passive House Institute US (<https://www.phius.org>)
- Living Building Challenge under Insurance Institute for Business and Home Safety (<http://living-future.org/lbc>)

When a new home to be constructed under a specific energy efficiency program will be used as a compensating factor, the qualifying ratios may exceed the established thresholds by up to two percentage points provided the Field Office obtains reasonable documentation that the property will be built to certification standards through one of the above programs. Once construction is complete, the Field Office must obtain verification that the property is certified through one of the above programs.

B. Adding Additional Parties or Cosigners to the Note

Additional financial resources may be added by adding additional parties to the note or locating cosigners.

1. Additional Parties to the Note

Additional parties to the note must agree to occupy the dwelling and must qualify as borrowers, as described in this chapter. Counting the income of the additional parties increases repayment income.

2. Cosigners

Individuals who will not reside in the dwelling, but who are willing to be responsible for the debt may be cosigners to the note. To supplement the applicant's purchasing power, a cosigner must demonstrate an ability and willingness to meet debt obligations as outlined in Section 3 and possess a TD ratio that does not exceed 41 percent. The cosigner's TD calculation would include the applicant's full note payment through Rural Development, the applicant's leveraged loan payments (if applicable), the applicant's escrow payment, and all of the cosigner's long-term (non-medical) obligations (including their mortgage) as well as their short-term (non-medical) obligations that have a significant impact on repayment ability. In the event of default, a cosigner is not entitled to any interest in the security or borrower rights.

Again, cosigners can only be used to improve the applicant's purchasing power. Cosigners cannot be used to compensate for an applicant's unacceptable credit history.

C. Payment Shock

Payment shock represents the applicant's projected increase in housing expenses. The following formula is used to calculate payment shock as a percentage:

$$\text{Payment shock} = (\text{Total proposed principal, interest, taxes, and insurance payment after subsidy} / \text{current housing expense excluding utilities}) - 1$$

Paragraph 4.24 Other Considerations Related to Maximum Loan Amounts

By way of example, presume that the Rural Development payment after subsidy is \$550, the leveraged lender's payment is \$250, taxes and insurance are approximately \$120, and the applicant's current rent is \$400. In this scenario, the applicant's payment shock is 130 percent:

$$(\$550 + 250 + 120) / 400 = 2.30; 2.30 - 1 = 1.30 = 130 \text{ percent}$$

In cases where payment shock is greater than 100 percent or could not be measured since the applicant does not currently have any housing expenses, no additional risk layering (i.e., adverse credit waivers, use of compensating factors, etc.) should be allowed without strong justification. Multiple layers of risk may be justified if the applicant has an excellent credit history reflecting timely repayment of credit obligations or a credit score of 640 or higher on their TMCR. Perhaps the applicant has demonstrated a careful attitude toward the use of credit and an ability to accumulate savings or a stable employment history over the past two years, demonstrating a dependable income stream. Regardless of the justification, the Loan Approval Official must thoroughly document their rationale for allowing multiple layers of risk in the running case record.

4.25 ISSUING THE CERTIFICATE OF ELIGIBILITY

If the Loan Originator determines that an applicant is eligible for a loan, the decision will be documented in the form of a written narrative in the running record of the applicant case file.

When funds are available, eligible applicants who have not yet located properties or, who own their building site but have not provided a construction package, should be issued Form RD 1944-59, Certificate of Eligibility. First-time homebuyers must be informed that by accepting a Certificate of Eligibility (COE) they agree to provide documentation of completion of an approved homeownership education course prior to entering into a contract to purchase or construct a home for maximum benefit (or shortly thereafter). The Loan Originator must note on the running record that they informed the Applicant of the homeownership education requirement.

The certificate is valid for a period of 120 days for all applications. Within that time the applicant must provide sufficient information to enable the Agency to conduct an appraisal of the property to be financed. The COE will be honored even if loan limits change before the expiration of the commitment. If the applicant has already submitted a contract for a property, Form RD 1944-59 will not be issued. If an applicant's sales contract falls through, a new Form RD 1944-59, good for 120 days, should be issued only if funding is available. If funding is unavailable at the time a sales contract falls through, Appendix 3 Handbook Letter 2 (3550) of this Handbook, Funds Not Available, should be issued. An application is no longer considered active and will be withdrawn when the COE has expired.

Applicants for a self-help loan will be issued Appendix 3, Handbook Letter 16-A (3550) of this Handbook, Eligibility of Self- Help Applicants - New Construction or Acquisition Rehabilitation, or Appendix 3, Handbook Letter 16-B of this Handbook, Eligibility of Self-Help Applicants - Owner Occupied Rehabilitation. See Appendix 13 of this Handbook for instructions on completing these letters.

If it is determined that a loan applicant cannot be determined eligible, the Loan Approval Official must sign and send Appendix 3, Handbook Letter 15 (3550) of this Handbook, Standardized Adverse Decision Letter to the applicant. The form explains why the loan is not approvable. The appropriate attachment from Chapter 1 should be attached to provide the applicable review, mediation, and appeal rights.

4.26 APPLICANT ORIENTATION

Applicants should be well-informed of Agency requirements and borrower responsibilities. After an applicant is determined eligible, the Loan Originator should provide them with Form RD 3550-23, Applicant Orientation Guide. The Loan Originator should instruct the applicant to watch the Agency's Applicant Orientation Guide video on YouTube and sign and return Form RD 3550-23 within 15 days.

ATTACHMENT 4-A
WORKSHEET FOR COMPUTING INCOME

HB-1-3550
Attachment 4-A
Page 1 of 1

The worksheet for Computing Income & Max Loan Amount Calculator is located on the Direct SharePoint in the General Info > [Useful Documents folder](#), or can be located on the [Direct Loan Application Packagers](#) webpage.

ATTACHMENT 4-B

[RESERVED]

ATTACHMENT 4-C

EVALUATING SELF-EMPLOYMENT

The purpose of this attachment is to provide guidance on how to properly analyze a self-employed applicant's income.

An applicant who has a 25% or greater ownership interest in a business is considered "self-employed" and a cash flow analysis of the applicant's Federal Income Tax Returns for the individual and business is required.

Step 1: Understand the Business Structures

The legal structure of a business determines the way business income or loss is reported to the IRS. Loan Originators must understand the applicant's business structure to effectively document, calculate, and analyze annual and repayment income. The following are the most common business structures for self-employed applicants.

- a. Sole Proprietorship: The business structure most often encountered is a sole proprietorship (be it a business, farming, or profession). A sole proprietor is someone who owns an unincorporated business by himself or herself and has unlimited personal liability for all debts of the business. Business income or loss is folded into the individual owner's tax return.
- b. Partnership: A partnership is an arrangement between two or more individuals who have put together their assets and/or skills to operate a business and who will share, as stated in the agreement, profit and losses. Each partner reports their share of the partnership's income or loss on their personal tax return. Partners are not employees and do not receive a Form W-2. Both general and limited partnerships report income on the IRS Form 1065, "US Return of Partnership Income" which must be reviewed to assess the viability of the business. A Schedule K-1 (1065) shows the partner's share of income, loss, deductions, credits and other items from the partnership business or rental activities. The partner's share of income is carried over to Schedule E of IRS Form 1040.
- c. Limited Liability Corporation (LLC): An LLC is a legal business structure which can be formed by one or more individuals and is designed to offer its members (owners) the tax efficiencies of a partnership and the limited liability advantages of a corporation. The LLC tax return filing requirements depend on how it is legally structured.

- If a single-member LLC does not elect to be treated as a corporation, the LLC is a “disregarded entity,” and the LLC’s activities will generally be reflected on its owner’s federal tax return with applicable Schedule (e.g., Schedule C).
 - An LLC with at least two members is treated as a partnership for federal income tax purposes and files the same documents as a Partnership. LLC profits are allocated to each of the owners according to the profit-sharing arrangement set up in the LLC operating agreement. The LLC prepares and files IRS Form 1065, Partnership Information Return each year, and each owner is given a Schedule K-1, which shows each owner’s share of LLC income. The partner’s share of income is carried over to Schedule E of their IRS Form 1040.
 - An LLC can also be treated as either a C or S Corporation with the same tax return filing requirements, but this requires the entity to file an IRS Form 8832 “Entity Classification Election” checking the corporate income tax treatment box on the form. After making this election, profits kept in the business are taxed at the separate income tax rates that apply to corporations. If you receive an application from someone whose business income is derived from an LLC, determining the business structure is important to know which types of business tax returns will be reviewed.
- d. S-Corporation: An S Corp is a legal entity that has a limited number of stockholders (up to 75) and elects not to be taxed as a regular corporation. An S-Corporation is generally a small, start-up business, with gains and losses that are passed onto the stockholders in proportion to each stockholder’s percentage of business ownership and it is taxed at their individual tax rates. The income for the owners is reflected on a W-2 and is taxes at the individual rate but may require adjustments based on any gains or losses of the business. This is another commonly encountered type of business.

Step 2: Document Self-Employment Income:

The Loan Originator must obtain the two most recent signed copies of the individual and business tax returns filed with the IRS and all supporting schedules, as applicable. If the applicant does not have copies of their tax returns, the Loan Originator may obtain IRS transcripts obtained directly from the IRS with all supporting schedules. For electronically filed tax returns, it is not necessary to require the applicant(s) to manually sign the return for application purposes if there is sufficient documentation the applicant has signed the return electronically (i.e., use of Self-Select PIN for Free File Fillable Forms, Electronic Filing PIN, or authorized E-File Provider). Federal Income Tax Returns for the individual and business will be required when ownership is 25 percent or greater. **The following table provides general guidance regarding the minimum documentation required for self-employed applicants for each business structure and where the profit and loss will be reflected on each tax form.** (Please note that the IRS tax forms can change the numbering or placement of this information).

Business Structure	Individual Tax Forms needed:	Business Tax Forms needed:
Sole Proprietorship	Form 1040: Business Income or (loss) Schedule C (Form 1040): Profit or Loss from Business	Form 1040, Schedule C: Profit or Loss from Business
	Depreciation or depletion may be added back into repayment income.	
Partnerships	Form 1040, Schedule 1: Rental real estate, royalties, partnerships, S corporations, trusts, etc. Schedule E (Form 1040): Total rental real estate and royalty income or (loss) or Part V Summary, Total income or (loss)	IRS Form 1065, U.S. Partnership Return of Income Schedule K-1 (Form 1065), Partner's Share of Income, Deductions, Credits, etc.
	Both general and limited partnerships report income on the IRS Form 1065, "US Return of Partnership Income" which must be reviewed to assess the viability of the business. A Schedule K-1 (1065) shows the partner's share of income, loss, deductions, credits and other items from the partnership business or rental activities. The partner's share of income is carried over to the Schedule E of IRS Form 1040. Both depreciation and depletion may be added back to repayment income in proportion to the applicant's share of income. A negative amount (loss) must not be used to offset other family income for repayment and/or annual income.	
Limited Liability Corporations	<u>Single-member LLC:</u> Form 1040: Business Income or (loss) Schedule C (Form 1040): Profit or Loss from Business	<u>Single-member LLC:</u> Form 1040, Schedule C: Profit or Loss from Business
	<u>Two-member LLC:</u> Form 1040, Schedule 1: Rental real estate, royalties, partnerships, S corporations, trusts, etc. Schedule E (Form 1040): Total rental real estate and royalty income or (loss) or Part V Summary, Total income or (loss)	<u>Two-member LLC:</u> IRS Form 1065, U.S. Partnership Return of Income Schedule K-1 (Form 1065), Partner's Share of Income, Deductions, Credits, etc.

<p>Limited Liability Corporations (continued)</p>	<p>If the business is a single-member LLC, the IRS treats the LLC as a sole proprietorship and profits are reported on Schedule C of the individual 1040 tax return.</p> <p>If the business has at least two members, the LLC prepares and files IRS Form 1065, Partnership Return of Income each year, which must be reviewed to assess the viability of the business.</p> <p>LLC profits are allocated to each of the owners according to the profit-sharing arrangement set up in the LLC operating agreement. Each owner is given a Schedule K-1, which shows each owner’s share of LLC income, loss, deductions, credits and other items from the LLC business. The owner’s share of income is carried over to the Schedule E of IRS Form 1040. Both depreciation and depletion may be added back to repayment income in proportion to the applicant’s share of income. A negative amount (loss) must not be used to offset other family income for repayment and/or annual income.</p> <p>See S-Corporations for tax return filing requirements if the LLC has an IRS Form 8832 “Entity Classification Election” which reflects an S or C Corporation.</p>	
<p>S Corporations</p>	<p>Form 1040, Schedule 1: Rental real estate, royalties, partnerships, S corporations, trusts, etc.</p> <p>Schedule E (Form 1040): Total rental real estate and royalty income or (loss) or Part V Summary, Total income or (loss)</p>	<p>IRS Form 1120S, U.S. Income Tax Return for an “S” Corporation (IRS Form 1120S)</p> <p>Schedule K-1 (Form 1120S), Shareholder’s Share of Income, Deductions, Credits, etc.</p>
	<p>The owner’s income will be reflected on the ‘compensation of officers’ line on the IRS Form 1120-S or if the owner pays themselves through W-2’s, this income will be reflected on the ‘salaries and wages’ line on the IRS Form 1120-S. The ‘compensation of officers’ and ‘salaries and wages’ is transferred to the applicant’s IRS Form 1040; both depreciation and depletion may be added back to repayment income in proportion to the applicant’s share income. A negative amount (loss) must not be used to offset other family income for repayment and/or annual income</p>	

If the applicant reports a significant increase or decrease in their self-employment income or does not have two full years of filed tax returns, the applicant must submit the most recent year-to-date profit and loss and balance statement. The Verification of Business Expenses, located in Appendix 8 of this Handbook, provides a sample format for recording business expenses. The profit and loss and balance statement or Verification of Business Expenses must be signed by the owner of the business or a tax professional (not required to be audited). The year-to-date profit and loss statement and Verification of Business Expenses is only used to analyze the income trend of the business when calculating annual income if there is a significant increase or decrease in self-employment income. Repayment income should only be based on the reported earnings of the previous two years of filed tax returns, unless the Loan Originator documents that the applicant has two years of previous successful employment in a similar line of work. The applicant's individual tax returns must reflect a history of receiving income at the same (or greater) level in a field that provides the same products or services as the current business.

The income for an applicant that has been self-employed for less than one year is not to be considered stable for repayment purposes.

Step 3: Calculate Self-Employment Income:

Individuals and businesses complete tax forms to calculate taxable income or loss. Tax forms by themselves do not wholly reflect the amount of income the Loan Originator may use toward repayment. To calculate self-employment income, it is necessary to make a cash flow analysis of the applicant's income.

The Loan Originator needs to make certain adjustments to the income (or loss) reported in IRS Form 1040 in order to have an accurate picture of the applicant's cash flow. The IRS allows self-employed applicants and business owners to make non-cash deductions to reduce taxable income. There are some non-cash deductions that can be added back into repayment income but are not added back to the annual income calculation. Depreciation and depletion are classic examples of non-cash deductions that reduce taxable income but increase the applicant's income for loan qualification purposes.

The Loan Originator must carefully review all tax forms to identify non-cash deductions (increasing income) and/or additional expenses (reducing income). The following are the most common adjustments to the net profit/income reported in the applicable tax forms/schedules:

Add Back into Repayment	Not Added Back
Depreciation	Employee Business Expenses
Depletion	Meals and Entertainment Exclusion
Nonrecurring Losses	Nonrecurring income (generally reported as “Other Income”)
Amortization / Casualty Loss (if non-recurring)	Nonrecurring Capital Loss
Recurring Capital Gains	

Business losses are considered “0” in determining annual income; however, Loan Originators should analyze federal tax returns and review if there are any non-cash deductions that should be added back into repayment income, which could result in a positive repayment income figure. A negative amount (loss) must **not** be used to offset other family income for repayment and/or annual income.

Step 4: Analyze the Self-Employment Income:

When analyzing self-employment income the Loan Originator must perform a detailed review of the applicant’s individual and business tax returns to confirm that the income is stable and dependable (likely to continue).

In general, income from self-employment is considered stable if the applicant has been self-employed for two or more years. Because self-employment income may change each year, the Loan Originator should always develop an average annual income by using at least two full years of the applicant’s self-employment income. An average takes in consideration typical market fluctuations, thus better predicting the applicant’s long-term earning ability.

Dependable income refers to the likelihood of continuity of the income. Making this determination requires the Loan Originator to predict future income. The Loan Originator should look at income trends and the stability of the income source. Any specific indication of an upcoming event that might change the applicant’s employment or income should be addressed in the loan file and considered in the underwriting decision. For example, if the most recent tax return shows an income considerable higher than reported in the previous tax year, the Loan Originator should investigate further to determine whether the higher income is due to business expansion or a onetime event unlikely to reoccur and continue. Income from a nonrecurring transaction should be excluded from the income calculations. Similarly, a nonrecurring loss should not be deducted from the income calculation.

Example – Using the 4-A Income Worksheet for Self-Employment calculation

Phil Johnson owns a construction company (ABC Builders), as a Sole Proprietor. He has provided the last two years of his tax returns (IRS Form 1040 and his Schedule C).

2022 Schedule C reflects the following:

Gross Income (line 7) - \$39,930.00
Total Expenses (line 28) - \$7,930.00
 Depreciation (line 13) - \$3,800
 Rent of vehicle/equipment (line 20a) - \$1,580
 Deductible meals (line 24b) - \$2,550
Net Profit (line 31) - \$32,000.00

2023 Schedule C reflects the following:

Gross Income (line 7) - \$38,884.00
Total Expenses (line 28) - \$6,994.00
 Depreciation (line 13) - \$2,650
 Rent of vehicle/equipment (line 20a) - \$2,755
 Deductible meals (line 24b) - \$1,589
Net Profit (line 31) - \$31,890.00

(Note: line numbers listed above are from Schedule C, but numbers on forms are subject to be changed by the IRS)

Below is an example of how you would complete Attachment 4-A, Income Worksheet.

Self-Employed - Business Name:		ABC Builders		
Business Structure:		Sole Proprietorship		
	2022	2023	Average (2 years)	
Net Income/Loss	\$ 32,000.00	\$ 31,890.00	\$ 31,945.00	B
Depreciation/Depletion	\$ 3,800.00	\$ 2,650.00	\$ 3,225.00	R
Interest			\$ -	
(Non-Cash Deduction)			\$ -	
Totals	\$ 35,800.00	\$ 34,540.00	\$ 35,170.00	
YTD	/	x	=	
	/	x	=	
	/	x	=	
Total = \$				-

TOTAL Household Income	
Repayment Income	
\$	35,170.00
Annual Income	
\$	31,945.00
Adjusted Annual Income	
\$	31,950.00

The average net income will be considered as both (B) annual and repayment income.

The depreciation is being added back but will only be considered as repayment income (R).

Other Types of Income Needing a Cash Flow Analysis:

Special Attention to Commission / Contract Income and Other Business Expenses

An applicant that receives 25% or more of the annual income in commission, bonuses or tips most likely engages in business activities needing a cash flow analysis. This income may be reported in the IRS Form W-2 or IRS Form 1099 (e.g., real estate agents/contract employees). Non-reimbursed business expenses reported in IRS Form 2106, Employee Business Expenses, should be deducted from the income reported on the applicant's tax return.

Commission, bonuses, and tips income may be considered stable if the applicant has received this income for the past two years. After making the cash flow analysis, the Loan Originator should develop a two-year average to make an income determination.

Summary

Income from self-employment may be unpredictable, subject to market/economic fluctuations. Due to the inherent risk of self-employment income, the Loan Originator must consider internal and external economic factors when analyzing self-employment income.

When an applicant is self-employed, or has income needing a cash flow analysis, do not use the total income reported on IRS Form 1040, IRS Form W-2, or IRS Form 1099. Instead, analyze each income line item individually and make the necessary adjustments to the total income/profit. If the Loan Originator fails to perform a detailed review and analysis of the borrower's tax return both annual and repayment incomes will be miscalculated.

ATTACHMENT 4-D

REVIEWING DOCUMENTATION FOR CITIZENSHIP STATUS

The purpose of this attachment is to provide guidance on acceptable evidence that a non-U.S. citizen is a qualified alien and to provide guidance on the use of the Systematic Alien Verification for Entitlements (SAVE) database maintained by the Department of Homeland Security (DHS).

A “qualified alien” is defined under the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) (8 U.S.C. Section 1641) as:

- 1) An alien who is lawfully admitted for permanent residence under the Immigration and Nationality Act;
- 2) An alien who is granted asylum under Section 208 of such Act;
- 3) A refugee who is admitted to the United States under Section 207 of such Act;
- 4) An alien who is paroled into the United States under Section 212(d)(5) of such Act for a period of at least 1 year;
- 5) An alien whose deportation is being withheld under Section 243(h) of such Act; or
- 6) An alien who is granted conditional entry pursuant to Section 203(a)(7) of such Act as in effect prior to April 1, 1980;
- 7) An alien who is a Cuban/Haitian Entrant as defined by Section 501(e) of the Refugee Education Assistance Act of 1980; or
- 8) An alien who has been battered or subjected to extreme cruelty under Section 431 of the Immigration and Nationality Act (INA).

Individuals with a valid T-Nonimmigrant Status, are eligible for assistance under 22 USC 7105; however, that eligibility may not be reflected in the SAVE tool. T-Nonimmigrant status may be evidenced by immigration paperwork describing that status, which may also appear as T1, T2, T3, or T4 statuses on certain forms. T-Nonimmigrant status may be evidenced by a benefits letter provided by the Department of Health and Human Services, the process for obtaining which is described at: <https://www.acf.hhs.gov/otip/victim-assistance/certification>. Since the Agency may not be able to verify their status through SAVE, an individual with a T-Nonimmigrant Status should provide at least one of the items described in this paragraph indicating their status.

Native Americans covered by the Jay Treaty of 1794 and born in Canada may also be eligible as lawfully admitted for permanent residence if they meet the requirements of 8 U.S.C. Section 1359. Since the Agency might not be able to verify their status through SAVE, the Native American should provide **all** of the documentation listed below.

- ❖ A letter from their Native American tribe stating that the alien has at least 50 percent Native American or Aboriginal blood (also referred to as the blood quantum);
- ❖ Their Canadian “Certificate of Indian Status Card” with a red stripe along the top;
- ❖ Their birth certificate;
- ❖ If a Haudenosaunee, their Red I.D. Card;
- ❖ If an Inuit, an Inuit enrollment card from one of the regional Inuit lands claim agreements;
- ❖ Their Social Security Card issued by the U.S. Social Security Administration; and
- ❖ Their Canadian or U.S. driver license.

SAVE System Access:

Rural Development has entered into an “Interagency Agreement” with DHS’s United States Citizenship and Immigration Service (USCIS) to allow access to the SAVE database. This database enables staff to obtain immigration status information to assist in determining a non-citizen applicant’s program eligibility. In most cases, SAVE will provide an immediate response concerning the immigration status of an applicant.

The Loan Originator must secure proof of identity and evidence that non-citizens who apply for program assistance are qualified aliens. In all cases, non-citizens legally admitted into the United States will have an Alien Identification Number. In cases where a number is not available or known, the applicant should contact the USCIS. (There are cases where an alien has been legally in the U.S. for a period of time and DHS has supplied them with a number, but the alien did not receive or has misplaced the number.) The Loan Originator should obtain the non-citizen’s Alien Identification Number and submit it to SAVE to obtain the applicant’s eligibility status based on the alien’s Class of Admission (COA).


To request SAVE access, email sfhdirectprogram@usda.gov the following information for the person that needs access to SAVE:

- First and Last Name
- Email Address
- Phone Number

National Office will grant access then email your username and temporary password. Please login and change the temporary password as soon as possible.

Prior to submitting request through the SAVE System, a new user should review the SAVE Program Guide, SAVE User Reference Guide and SAVE FAQ.

Sign In

 If you are an employee of the Social Security Administration, [click here](#).

User ID (required)

[Forgot User ID](#)

Password (required)

[Forgot Password](#)

[Show password](#)

Sign In

Go to SAVE: <https://save.uscis.gov/web/vislogin.aspx>
Enter: User ID and Password.

Click on 'Create New Case'

Welcome, Jennifer

Create New Case

Search Cases

The Loan Originator will at a minimum enter the applicant's First Name, Last Name, and Date of Birth and enter as many enumerators as are available. At least one enumerator is required.

Enter the Alien Identification Number or USCIS # (9 digits) into the "Alien Number" field. **Do not enter dashes, only the 9-digits.**

Case Creation

Photo Match

Additional Verification

Case Result

Case Closure

Create a Case

Applicant Information

First Name

ex. Susan

Given Name

Last Name

ex. Hernandez-Diaz

Family Name or Surname

Middle Name

ex. Rose

Date of Birth

MM/DD/YYYY

Please fill out as many enumerators as are available to you. At least one enumerator is required. The more information provided, the higher the chance of returning a verification result on initial verification. For more information, please see the [Guide on Immigration Documents Commonly Used by Benefit Applicants](#).

Alien Number

ex. 123456789

SEVIS Identifier

ex. 1234567890

I-94 Number (I-94#)

ex. 12345678911

Passport Number

ex. 12EJ3456789

Naturalization/Citizenship Number

ex. S1234567

Card Number

ex. LKJ1234567899

Visa Number

ex. 12345678

Select the benefits the applicant is requesting: “USDA Housing Loans” and click ‘Continue’

*Please select all the benefits the applicant is requesting.

☐ Housing Assistance ☐ USDA Loan Guarantees ☐ USDA Housing Grants ☐ USDA Rent Assistance ☐ USDA Farm Loan ☒ **USDA Housing Loans**

In addition to the applicant's immigration status, your agency has asked that we provide you with the following information (if available) in order to determine the applicant's eligibility.

Please select any of the following additional pieces of information if you need them to determine the applicant's eligibility (or press continue if you don't need anything else).

☐ Fraud

.....

Continue

You will get a case creation for you to review the Case Details. If the case information is accurate, click ‘Initiate Verification’

Review Case Details

Please review case information for accuracy. If there are any errors, it may prolong the verification process.

Full Name	Requested Benefits
Date of Birth	<input checked="" type="radio"/> USDA Housing Loans
Alien Number	Attached Document
Point of Contact Name Jennifer Rydberg	No
Point of Contact Phone Number 2026174537	

.....

Initiate Verification [Go Back](#)

SAVE Response

If you receive this system response, your applicant is a qualified alien.

Applicant Status: Lawful Permanent Resident-Employment Authorized
The applicant is a non-national of the U.S. who has been granted authorization to live and work in the United States permanently as an immigrant. See the [Guide to Understanding SAVE Verification Responses](#) for additional information. Follow your agency's policy when determining whether this applicant is eligible for benefits.

SAVE Response Details
Case Verification Number
[REDACTED]
COA Code
REG
Country of Birth
[REDACTED]
Date Admitted To
INDEFINITE

Agency Submitted Details
Full Name
[REDACTED]
Date of Birth
[REDACTED]
Alien Number
[REDACTED]
Initiated On
[REDACTED]

The applicant is eligible for program assistance if the response is “LAWFUL PERMANENT RESIDENT – EMPLOYMENT AUTHORIZED”. Other acceptable responses include but are not limited to “ASYLEE”, “PAROLEE”, “REFUGEE”, and “USC” (UNITED STATES CITIZEN). Qualified Alien is defined under the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) (8 U.S.C. Section 1641). See Guide to understanding SAVE Verification Responses.


The applicant is not eligible for program assistance if the response is “TEMPORARY RESIDENT – TEMPORARY EMPLOYMENT AUTHORIZED”.

As a reminder, individuals with a valid T-Nonimmigrant Status, are eligible for assistance under 22 USC 7105; however, that eligibility may not be reflected in the SAVE tool. T-Nonimmigrant status may be evidenced by immigration paperwork describing that status, which may also appear as T1, T2, T3, or T4 statuses on certain forms. T-Nonimmigrant status may be evidenced by a benefits letter provided by the Department of Health and Human Services, the process for obtaining which is described at: <https://www.acf.hhs.gov/otip/victim-assistance/certification>. Since the Agency may not be able to verify their status through SAVE, an individual with a T-Nonimmigrant Status should provide at least one of the items described in this paragraph indicating their status.

All applicants who are denied benefits based solely or in part on the SAVE response must be notified by the Loan Approval Official in writing using Appendix 3, Handbook Letter 15 of this Handbook, Standardized Adverse Decision Letter. Appendix 3, Handbook Letter 15 of this Handbook should include

the information necessary to contact DHS so that they may correct their records in a timely manner and attached the appropriate SAVE Fact Sheet. SAVE Fact Sheets can be found on the SAVE website under the Help drop-down menu in [Resources](#).

SAVE Response

**Institute Additional Verification**

SAVE was unable to verify the applicant's status on electronic initial verification. There may have been an issue electronically locating the records or additional verification may be required due to conflicting data or the nature of the applicant's status. This is not a final response and should not be used to determine benefit eligibility. Please Institute Additional Verification so SAVE can conduct more research and return the correct status.

If you receive this response, the system was unable to verify, and additional information is required.

SAVE Response Details

Case Verification Number

Special Comments

Enter any additional comments here

Agency Requests

Upload File (required)

SAVE needs a copy of the applicant's immigration documentation in order to perform additional verification. Please upload a copy below.

Drag file to upload or [browse to upload file](#).

Initiate Additional Verification

Close Case

Close Case and Create New Case

Agency Submitted Details

Full Name

Date of Birth

Alien Number

Initiated On

Initiated By

Point of Contact Name

SAVE is asking the Agency user to supply additional information for a second level verification process. Agency staff should enter special comments or upload additional documents, then click the “Initiate Additional Verification” button. Within 3-5 federal working days, SAVE will respond with the applicant’s status or a request to “Resubmit Doc.” If the applicant’s immigration status is confirmed, the verification process is complete, and the case is closed.

If the response from SAVE is “other” and the Loan Originator has concerns about any information provided by SAVE on the second level response, the Loan Originator may request a third level verification or contact SAVE at 877-469-2563.

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