

Top Tips for Confident Credit Underwriting

Single Family Housing
Guaranteed Loan Program



AGENDA

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



Navigating the Credit Review



Have a Scenario or Policy Question?

Reach out to our Scenario Desk!

sfhgld.program@usda.gov or

833-314-0168, ext. 4



Navigating the Credit Review



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HB-1-3555
Attachment 10-A
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ATTACHMENT 10-A

CREDIT MATRIX

Credit guidance: 3555.151(i)

CONSIDERATIONS FOR CREDIT ANALYSIS

ALL GUARANTEED LOANS:

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

CREDIT ALERT VERIFICATION REPORTING SYSTEM (CAIVRS)

CAIVRS is a Federal government wide repository to file and report delinquent and/or defaulted claims on individuals that were paid on their behalf.

CAIVRS may return the following results:

- A: Approved by CAIVRS (no issues exist)
- B: Multiple cases from one or more Federal agencies
- C: Claim filed
- D: Default on loan
- F: Foreclosure of loan
- J: Judgment filed

An "A" response is the only acceptable result for an applicant to be eligible for a guaranteed loan.

CAIVRS in GUS:

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



Creditworthiness



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Ability & willingness to meet obligations

Verifiable credit history

Adverse credit

Guaranteed Underwriting System (GUS) Recommendation

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ATTACHMENT 10-A

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Guidelines & Resources



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HB-1-3555

Chapter 10

USDA LINC Training & Resource
Library

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Credit Score Validation

Credit Score Validation



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GUS “Accept”:

No credit score validation required

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

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

No eligible tradelines on the credit report:

Non-traditional credit must be verified

Credit Score Validation



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Validate Credit Score:

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

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

Must have 2 tradelines on the credit report that have been/were/are open for 12 months based on the date the account was opened as stated on the credit report.

A validated score does not indicate the applicant has an acceptable credit history. A validated score confirms that one applicant has an eligible minimum credit history.

Underwriter must still analyze credit history.

Credit Score Validation



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Eligible tradelines to validate the credit score.

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

loans (secured/unsecured)

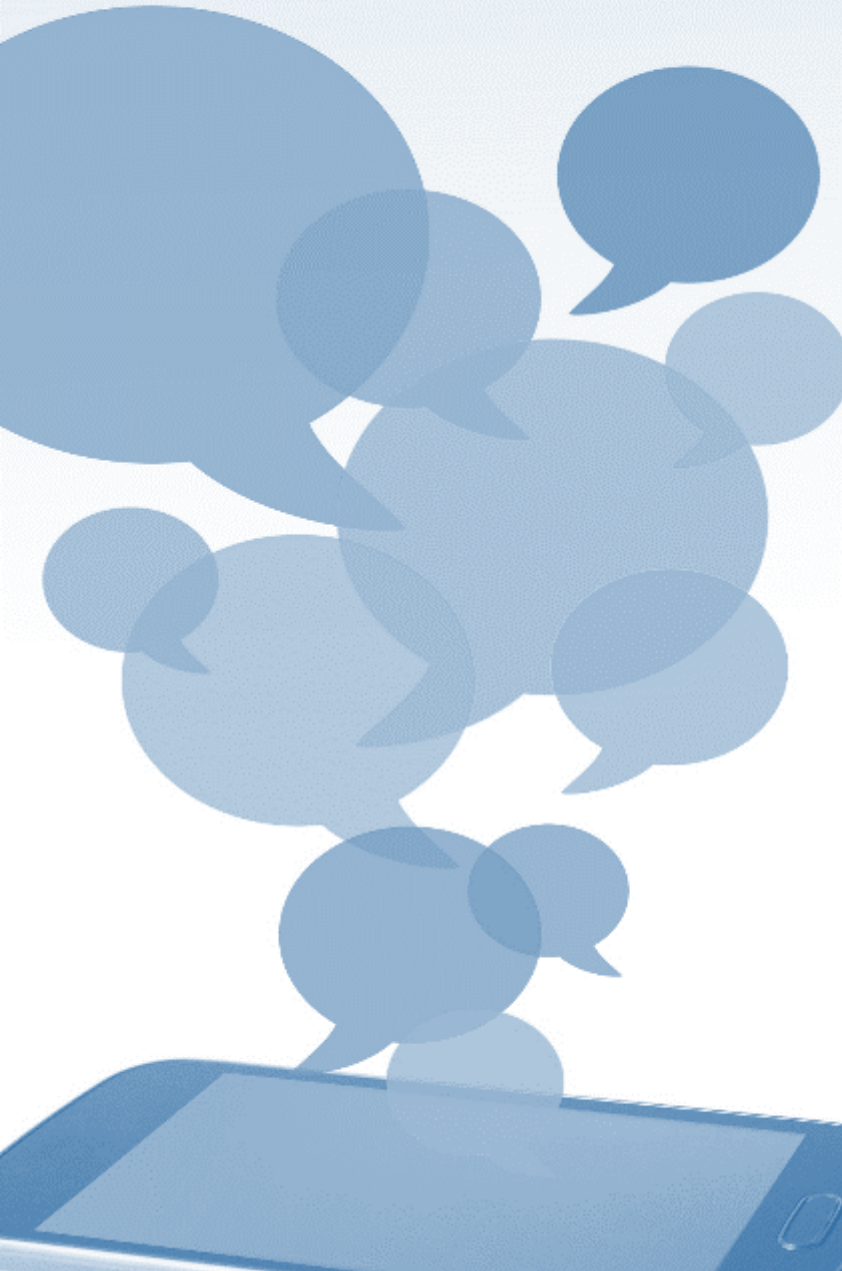
revolving accounts

installment loans

credit cards

collections

charge-off accounts



TRIVIA TIME

An applicant has 2 credit scores, with the third credit score frozen. Does the third score need to be unfrozen?

Credit Score Validation



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ANSWER: Yes

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

On a GUS Refer, the applicant only has one credit score. However, the applicant has enough tradelines on their credit report to meet the credit score validation requirements. Are non-traditional tradelines also required?

Credit Score Validation



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ANSWER: No

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

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

Credit Score Validation



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ANSWER: Maybe

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

If an applicant has 2 auto loans reporting for 8 months and 4 months respectively, can we use the aggregate of that to meet the requirement of an account reporting for 12 months?

Credit Score Validation



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ANSWER: No

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

Non-Traditional Credit

Non-Traditional Credit History

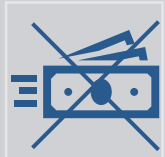


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No present housing expense = 3 tradelines



Present housing expense = 2 tradelines (VOR or housing payment verification plus 1 additional trade line)



Trade lines may be open, recently closed and/or paid in full; must have 12-month history (Recent = 6 months)

Non-Traditional Credit History



Have a Scenario or Policy Question?

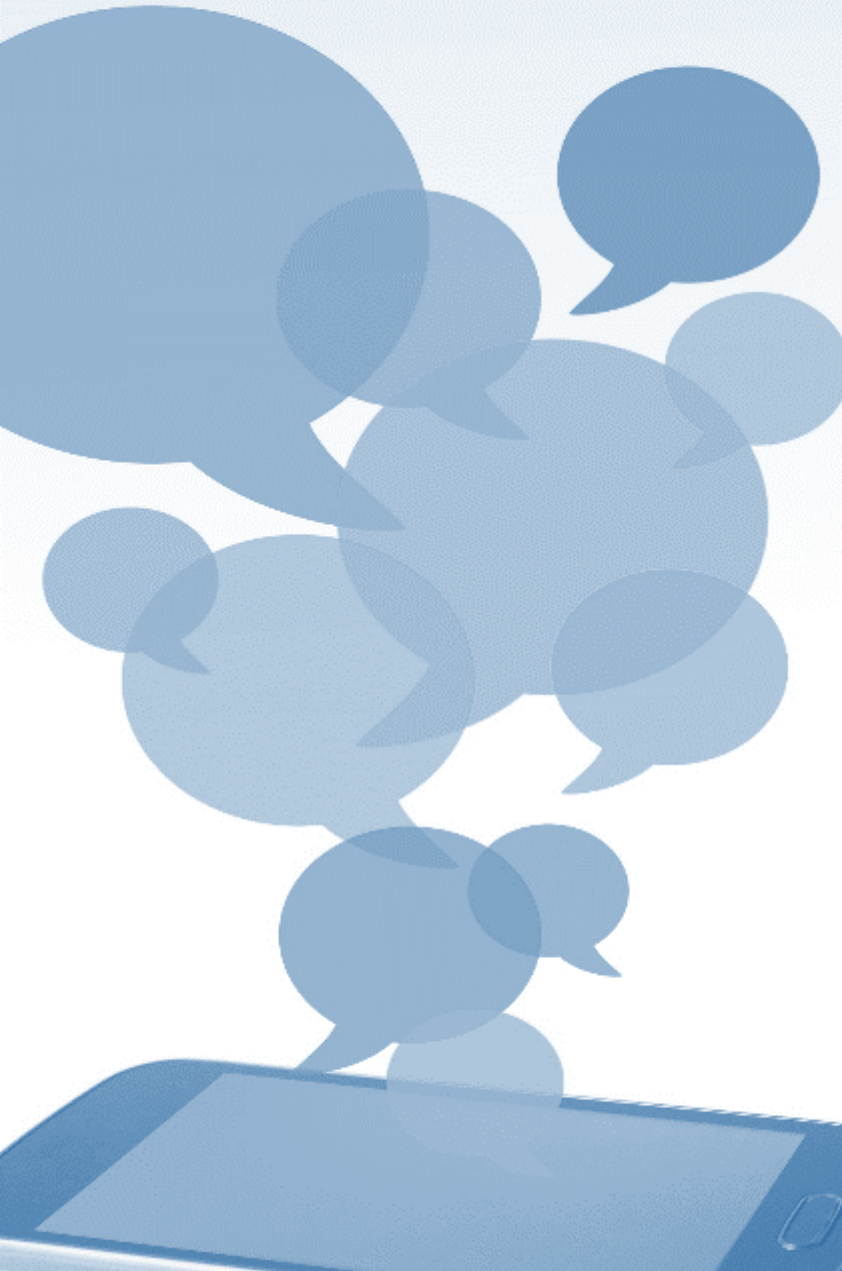
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**Non-traditional
credit may be
documented as:**

- 1. A Non-Traditional Mortgage Credit Report (NTMCR),
- 2. Self-Reported tradelines on a traditional credit report, or
- 3. Evidence from third party verifications, canceled checks, money order receipts, electronic payments, payment histories from the creditor/company, bank statements that clearly identify debit payments for the service/product, etc.



TRIVIA TIME

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

Non-Traditional Credit



Have a Scenario or Policy Question?

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ANSWER: No

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

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

Non-Traditional Credit



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ANSWER: No

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

Addressing Significant Adverse Credit

Delinquent Non-Tax Federal Debt



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Must not be delinquent on non-tax Federal debt



CAIVRS verification



“A” is the only acceptable response



Review your GUS Findings



Lender cannot waive delinquent Federal debt

Delinquent Federal Taxes



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

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

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

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

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

Delinquent Child Support



Have a Scenario or Policy Question?

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Presently delinquent court ordered child support.

INELIGIBLE unless:

Subject to the collection by an administrative offset.

Applicant has brought payments current.

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

NOT subject to an administrative offset.

Approved repayment agreement in place with three timely payments made prior to loan closing.

The arrearage is paid in full prior to loan closing, or a release of liability is documented.

Delinquent Child Support



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Is it subject to administrative offset?

Delinquent child support is not a Federal debt.

It is not reported to CAIVRS.

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

Delinquent Child Support

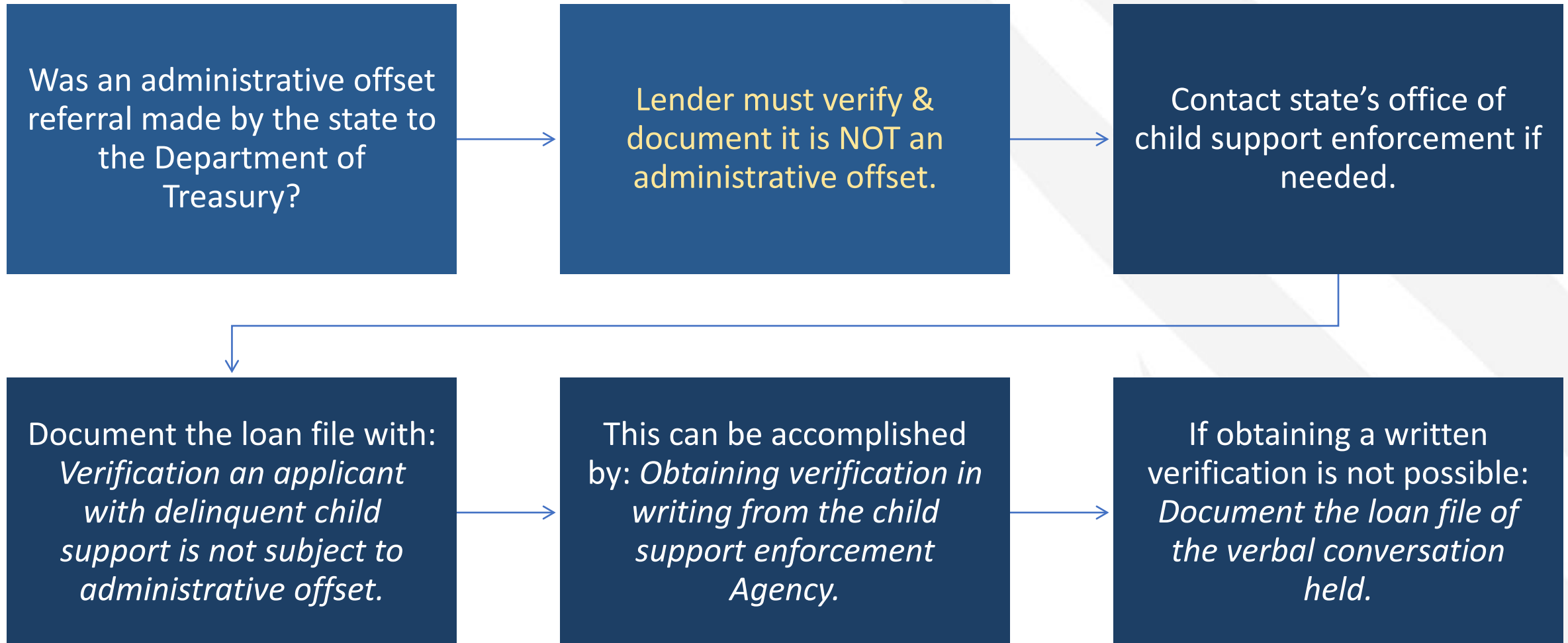


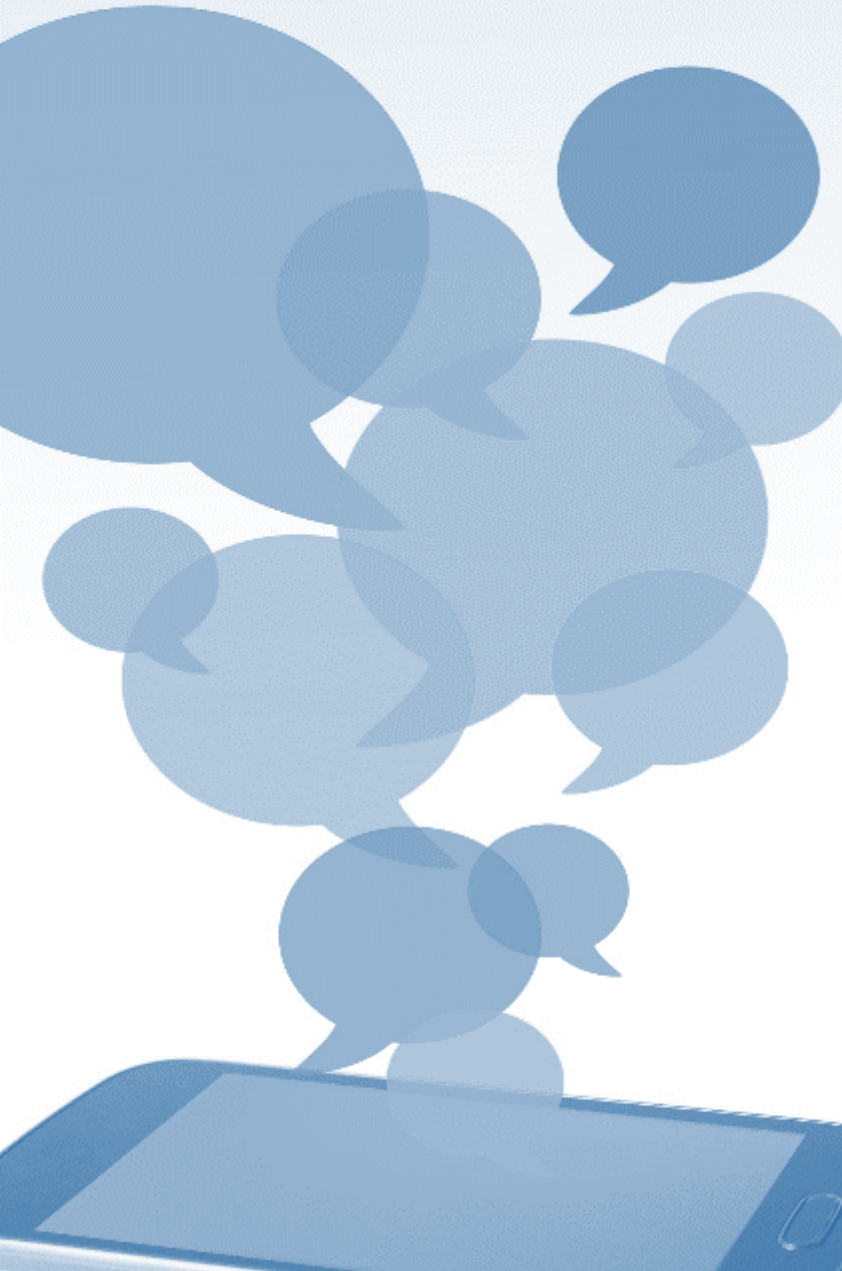
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TRIVIA TIME

An applicant has a clear CAIVRS result but has had a wage garnishment for over 3 years on a US Education loan. Is the applicant eligible since the CAIVRS was clear?

Delinquent Non-Tax Federal Debt



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ANSWER: No

- No, even when the applicant's CAIVRS is clear, if the credit indicates there is a delinquent federal debt, the applicant is ineligible unless:
 - the debt is paid in full, or
 - a release of liability is documented.

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

Delinquent Non-Tax Federal Debt



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ANSWER: No

- No, an “A” CAIVRS response is the only acceptable result for an applicant to be eligible.
- The applicant will need to contact the federal agency involved to clear it.
- A CAIVRS response of “A” will need to be obtained outside of GUS and uploaded to GUS as part of the complete loan application.
- GUS does not allow for additional CAIVRS requests once a result is obtained.

Credit Exceptions

Credit Exceptions Lender Cannot Waive



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Previous USDA losses

*(which occurred within 7 years of
submission date)*

(USDA will make eligibility determination)

Delinquent non-tax
Federal debts

Delinquent child
support

Ineligible CAIVRS
results

Credit Exceptions



Have a Scenario or Policy Question?

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GUS Accept

- **NOT** Required

GUS Refer, Refer with Caution, Manually Underwritten

- **REQUIRED** for:
 - Chapter 7 discharged within previous 36 months
 - Chapter 11, 12, & 13 discharged/completed less than 12 months
 - Deed-In-Lieu within 36 months prior to submission to the Agency
 - Foreclosure discharged or a repossession reported within the 36 months prior to submission to the Agency
 - Short sale closed within the 36 months prior to submission to the Agency
 - One rent or mortgage payment paid 30 or more days past due in the previous 12 months

GUS Refer, Refer with Caution, Manually Underwritten

- **NOT** Required for:
 - Overdraft/NSFs
 - Chapter 11, 12, & 13 discharged/completed more than 12 months
 - Charge-Offs
 - Collections
 - Consumer Credit Counseling
 - Disputed Accounts
 - Garnishments
 - Non-Federal Judgment

These are the Agency's minimum guidelines, but lenders may have additional overlays or more stringent credit requirements.

Credit Exceptions



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Creditworthiness

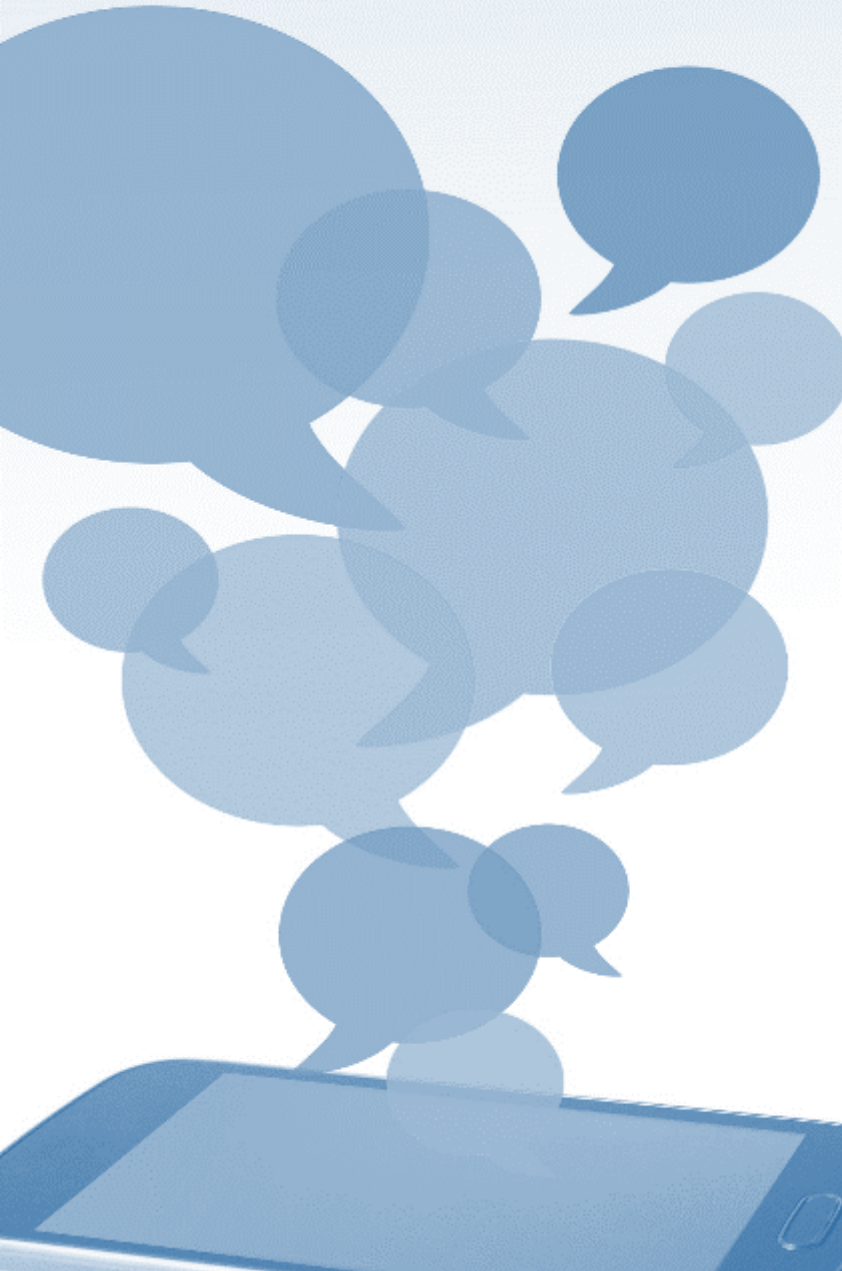
- Credit history problems do not always reflect an unwillingness to meet financial obligations.
- Does the documentation makes sense? Does it support your decision?

Lender Responsibility

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

USDA Responsibility

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



TRIVIA TIME

An applicant previously had a USDA foreclosure. Are they eligible for a new loan through Rural Development?

Credit Exceptions



Have a Scenario or Policy Question?

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ANSWER: Maybe

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

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

Credit Exceptions



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ANSWER: Maybe

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

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

Credit Exceptions



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ANSWER: No

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

One of the compensating factors for a ratio waiver on a refinance transaction states, “Continuous employment with the current primary employer”. What amount of time is required to use this compensating factor?

Credit Exceptions



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ANSWER: Underwriter discretion

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

Credit Considerations

Collection Accounts



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Review all
collection
accounts

- If the cumulative total of all non-medical collections exceeds \$2000, the lender must:
- Require payment in full of these accounts prior to closing
- Use an existing repayment agreement amount OR
- Include 5% of the outstanding balance
- All open collection accounts on the credit report must be listed on the GUS Liabilities page

Recent/Undisclosed Debts/Increased Balance of Existing Debts Identified After a Conditional Commitment is Issued



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Cumulative debt amount of \$50 or less:

- Lender may retain the issued Conditional Commitment.
- Retain all documentation to support the new/increased debt(s) and payment(s) in the permanent loan file.
- No further action is required.

Cumulative debt amount of \$51 or more:

- Lenders must request the GUS loan to be released by USDA.
- Enter the new/increased debt(s) and payment amount(s).
- Retain all documentation to support the data entries.
- A new preliminary underwriting submission must be completed to confirm the GUS underwriting recommendation.
- Upload documentation as applicable and complete a new final underwriting submission to USDA.
- USDA will issue a new Conditional Commitment. Lenders cannot close loans without a valid Conditional Commitment.

Non-Purchasing Spouse Debts



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Guidelines

Follow applicable community property state (CPS) lending laws.

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

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

GUS

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

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

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

Rent History



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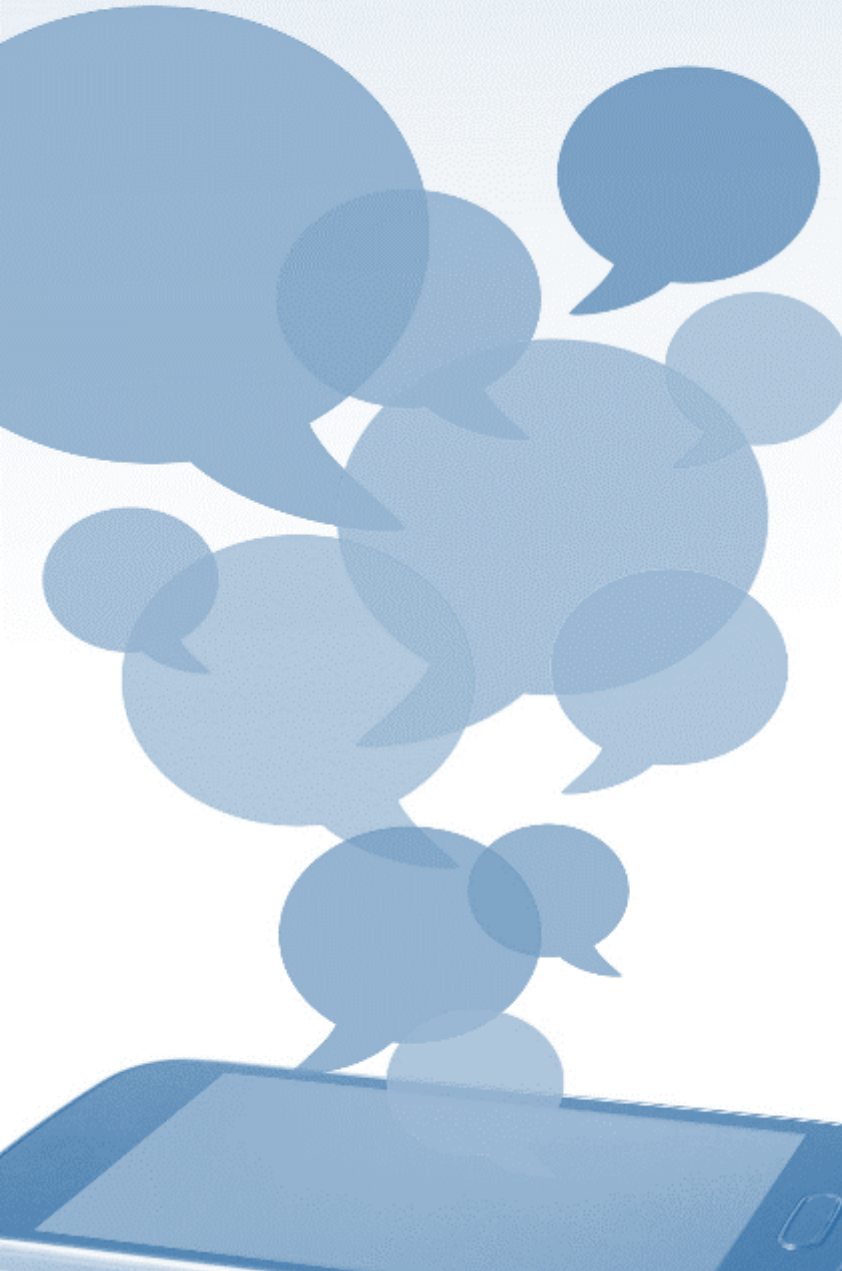
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GUS “Accept” File: No verification of rent or mortgage required.



GUS “Refer”, “Refer with Caution”, or Manually Underwritten: May require a verification of rent or mortgage. Refer to GUS Underwriting Findings Report.



TRIVIA TIME

An applicant has medical collections which are disputed. Does the file have to be downgraded because of the disputes?

Collection Accounts



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ANSWER: No

- Lenders may exclude disputed medical accounts and collections; therefore, no downgrade is required.

Lender Toolkit



Before you go,
share with us!



*Let us know how
we did!*

USDA LINC Training & Resource Library

The Single Family Housing Guaranteed Loan Program has prepared a comprehensive library of resources for all lending partners. In the categories below you have access to all of the training, resources, and important forms for program participation.

If you have questions or need additional information, please contact us. **Contact Information:** [SFHGLP Contact List](#)



Lender Approval
[Learn More](#)



Loan Origination
[Learn More](#)



Single Family Housing GLP Policy Desk
[Learn More](#)



Lender Training
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Loan Closing
[Learn More](#)



Guaranteed Underwriting System
[Learn More](#)



Loan Servicing
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Email Updates

An archive of previously released email bulletins and program updates is provided below. Stay connected with the latest information by [subscribing to our email](#).



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

Save it as a favorite to access quick answers!

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

Sign up for GovDelivery notifications

HB-1-3555

The screenshot shows the USDA RD website's 'Handbooks' page. The page title is 'Handbooks' and the breadcrumb trail is 'HOME > RESOURCES > DIRECTIVES'. The main content area is titled 'Below are handbooks information' and lists two handbooks: 'HB-1-3550 Direct Single Family Housing Loans and Grants - Field Office Handbook' and 'HB-1-3555 SFH Guaranteed Loan Program Technical Handbook'. The second handbook is highlighted in yellow. Below the highlighted handbook, there is a 'Table of Contents' section with 15 chapters and their corresponding topics.

Consolidated version (large document may take long to load)	
Table of Contents	
Chapter 1	Overview
Chapter 2	Record Retention
Chapter 3	Lender Approval
Chapter 4	Lender Responsibilities
Chapter 5	Origination and Underwriting Overview
Chapter 6	Loan Purposes
Chapter 7	Loan Terms and Conditions
Chapter 8	Applicant Characteristics
Chapter 9	Income Analysis
Chapter 10	Credit Analysis
Chapter 11	Ratio Analysis
Chapter 12	Property and Appraisal Requirements
Chapter 13	Special Property Types
Chapter 14	Funding Priorities
Chapter 15	Submitting the Application Package

HB-1-3555

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

Bookmark It!

Use Ctrl-F to find answers quickly!

FAQs

FAQ

Frequently Asked Questions

Appraisal and Property Requirements

Appraisal ([HB-1-3555 Chapter 12](#))

- **Do appraisers need to be on an approved list to complete appraisal reports for Rural Development loans?**

No, Rural Development does not maintain a list of approved appraisers. It is the responsibility of the lender to select qualified appraisers that are properly licensed or certified, as appropriate, in the State in which the property is located.
- **How long is an appraisal valid?**

The appraisal must have been completed within 150 days of loan closing. Appraisals that are older than 150 days at loan closing are eligible for an appraisal update to extend the appraisal an additional 90 days.
- **The lender has determined there are significant concerns with an appraisal. Can a second appraisal be ordered?**

Rural Development does not require that the first appraisal ordered is the one that must be utilized. The approved lender may seek an alternate appraisal if they determine the initial appraisal report is unacceptable.

FAQs

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

Bookmark It!

Use Ctrl-F to find answers quickly!

TOPIC	CONTACT
File-Specific Questions Information to include in email: <ul style="list-style-type: none"> Identify the state the application is located; if applicable; Provide applicant's name and USDA borrower ID, if applicable; GUS loan number, if applicable Include contact information; and Indicate if you would like a call back (otherwise you will receive an email reply) File-Specific Questions by phone:	Production Team One: SFHGLPONE@usda.gov AK, AL, AZ, CA, CO, GU, HI, IA, ID, KS, MT, NM, NV, OR, SD, TX, UT, WA, WI, WP, WY Production Team Two: SFHGLPTWO@usda.gov AR, KY, LA, MN, MO, MS, ND, NE, NJ, NY, OK Production Team Three: SFHGLPTHREE@usda.gov CT, DE, GA, IL, MA, MD, ME, MI, NC, NH, RI, SC, VT, WV Production Team Four: SFHGLPFOUR@usda.gov FL, IN, OH, PA, PR, TN, VA, VI *833-314-0168, ext. 2
Lender Self-Report	sfhgld.compliance@usda.gov
Program Training	sfhgld.lenderpartner@usda.gov
Program Marketing and Outreach	
General Loan Scenario Questions	sfhgld.program@usda.gov or *833-314-0168, ext. 4
Loan Policy/Regulation/Handbook	
Turn Times	*833-314-0168, ext. 1
Lender Approval/Recertification	sfhgld.servicing@usda.gov
Loan Servicing	
Technical Issues: GUS	RD.HD@USDA.GOV or (800) 457-3642 option 2, option 2
Technical Issues: e-Authentication	E-Authentication FAQs: https://www.eauth.usda.gov/eauth/b/usda/faq E-Authentication Contact Us: https://www.eauth.usda.gov/eauth/b/usda/contactus
Loss Claims	guarantee.svc@usda.gov
Monthly and Quarterly Status Reporting	RD.SO.HSB@usda.gov
GUS User Agreements	
Adding/Removing Security Administrator (SFH Guaranteed Loan Program Automated Systems)	Form Instructions: https://www.rd.usda.gov/files/RD-SFH-AdditionalLenderSecurity.pdf

*Phone System Availability: 9:00 am to 3:30 pm ET

TOOLS AND RESOURCES
Regulation and Handbook: https://www.rd.usda.gov/resources/directives
Lender Webpage: Turn times, contact information, and helpful links: https://www.rd.usda.gov/page/sfh-guaranteed-lender
USDA LINC: Training modules, user guides, and more useful resources: https://www.rd.usda.gov/programs-services/lenders/usda-linc-training-resource-library
GovDelivery: Receive notifications regarding origination, servicing, and GUS updates: https://public.govdelivery.com/accounts/USDARD/subscriber/new

We're here to help.

<https://www.rd.usda.gov/media/file/download/sfhgldcontactlist.pdf>

Have a question on POLICY?

Contact the PAC team!

Need TRAINING?

Contact the LPA team!

Have a question on a SPECIFIC FILE?

Contact the OPD!

thank
you



*Let us know how
we did!*



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