



Section 502 Direct Loan Program Self-Assessment, Pre-Qualification and Application Processes

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 Rural Development
U.S. DEPARTMENT OF AGRICULTURE

Presented by the:
Single Family Housing Direct Loan Division

The purpose of this presentation is to give viewers a basic overview of the Section 502 direct loan program's self-assessment, pre-qualification and application processes. While this training is targeted to Rural Development (RD or Agency) staff, others (such as loan application packagers) may find the covered materials useful.

Self-Assessment Tool

Single Family Housing Direct Self-Assessment Tool

<https://eligibility.sc.egov.usda.gov/eligibility/welcomeAction.do?pageAction=assessmentType>

Potential applicants
may enter information at any time
to determine whether the program is a good fit.


The preferred method for an applicant to determine if the program is a good fit for them and to determine whether their income meets program requirements, is to use the Single Family Housing Direct Self-Assessment Tool located at the website on the slide.

Potential applicants may enter information at any time and even save information to view later. Over the next few slides, we'll go through some of the tool's screens.

Self-Assessment Tool – Help icon

Single Family Housing Self-Assessment

Assessment Type

Select an Assessment Type to create a new Assessment  Click on this icon to see Help topic. We strive to provide accurate and complete information on this website, based on Rural Development eligibility requirements. Rural Development, however, does not guarantee the accuracy, or completeness of any information, product, process, or determination provided by this system. **Final determination of eligibility must be made by Rural Development upon receipt of a complete application. Entering information on this website does not constitute a final determination by Rural Development.** To proceed with the Self-Assessment, you must accept this disclaimer.

or, Enter a reference id for an existing Assessment

Accept Decline

The Help icon appears throughout the tool to provide information and program guidance.

First, notice the Help icon which appears throughout the tool to provide information and program guidance.

Help includes topics related to:

- Assessment Type
- Residents Under 18 Years Old, Disabled, or Full Time Students
- Child Care Deduction
- Elderly Household Deduction
- Elderly Family Medical Expenses Deduction
- Disability Expense
- Definitions of Applicant, Co-Applicant, Full-time Students, and Adult Household Members
- Debts to Include in Total Debt Calculation
- Student Loan Brief Explanation and Disclaimer
- Wage and Salary Income
- Other Sources of Income

Single Family Housing Self-Assessment

USDA United States Department of Agriculture Rural Development

ELIGIBILITY

Home Tutorials

Single Family Housing Guaranteed Single Family Housing Direct Multi-Family Housing Rural Business OneRD Loan Guaranteed Water and Environmental Guaranteed Water and Environmental Direct

Community Facilities Guaranteed

Self-Assessment Income Limits Loan Basics Property Eligibility Previous Eligibility Areas

Single Family Housing Self-Assessment

Assessment Type

Select an Assessment Type to create a new Assessment

Build a Single-Family Home
Purchase a Single-Family Home
Refinance an Existing Single-Family Home

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Accept Decline

To begin, potential applicants are asked to identify an Assessment Type (build, purchase, or refinance). The Assessment Type reflects the Section 502 direct program’s primary loan purposes; it has no impact the assessment’s end result.

The site has a disclaimer that states: “Every effort is made to provide accurate and complete information on this website, based on Rural Development eligibility requirements. Rural Development, however, does not guarantee the accuracy, or completeness of any information, product, process, or determination provided by this system. Final determination of eligibility must be made by Rural Development upon receipt of a complete application. Entering information on this website does not constitute a final determination by Rural Development. To proceed with the Self Assessment, you must accept this disclaimer.”

Again, we won’t be going through all the screens in the tool, but for reference please note there are screens for property location, household member information, monthly income & deductions, monthly debt obligations, and unverified credit history information.

Self-Assessment Determination Summary

Self-Assessment Determination Summary

This program appears to be a good fit, based on unverified information as entered, a standard repayment period of 33 years, and the program guidelines in effect as of 6/28/2022. You are welcome to submit a complete application (as defined in [Handbook-1-3550, Chapter 3, Attachment 3-J](#)) for an official determination. The official determination will be based on verified information, a credit report, the applicable repayment period (which will be 30 years for a manufactured home or may be 38 years under certain conditions), and the prevailing program guidelines. To qualify, an applicant must show adequate repayment ability, have a credit history that demonstrates a willingness and ability to meet their debt obligations, and meet the other program requirements. Once we receive a complete application from you, an eligibility determination can be made.

Contact Us for further details on the Direct Loan Program.

Income Summary

Annual Household Income:	\$36,000.00
Total Deductions:	\$1,360.00
Household Adjusted Annual Income:	\$34,640.00
Maximum Adjusted Annual Income for Selected State and County:	\$65,300.00

Repayment Summary

Adjusted Monthly Income:	\$2,886.67
Monthly Debt Obligations:	\$250.00
Monthly Insurance/Taxes:	\$166.67
Estimated Maximum Loan Amount:	\$274,230.00

* To save this assessment, enter your email address and click on Save:

Based on the information provided, the tool generates the Self-Assessment Determination Summary including if the potential applicant appears to be a good fit, an Income Summary, and Repayment Summary. An estimated Maximum Loan Amount is provided based on repayment ability and the area loan limit. If the potential applicant selected a county that is entirely ineligible, the estimated Maximum Loan Amount will show \$1.

Regardless of the result, the summary states “You are welcome to submit a complete application (as defined in [Handbook-1-3550, Chapter 3, Attachment 3-J](#)) for an official determination. The official determination will be based on verified information, a credit report, the applicable repayment period (which will be 30 years for a manufactured home or may be 38 years under certain conditions), and the prevailing program guidelines. To qualify, an applicant must show adequate repayment ability, have a credit history that demonstrates a willingness and ability to meet their debt obligations, and meet the other program requirements.” A link to the handbook provides the most recent requirements of the Attachment 3-J.

Regardless of the result, the summary will also provide a “Contact Us” link. Potential applicants can choose to save the assessment by providing an email address. Once an email address is entered, a reference number is assigned - which is provided on the webpage and emailed to the potential applicant. When the need arises, the potential applicant can use the reference number to retrieve their self-assessment to make changes or provide the reference number to the RD Field Office so that Agency staff can access the summary and discuss the results with them.

Self-Assessment Determination Summary with Credit Assessment

Self-Assessment Determination Summary

This program **does not appear to be a good fit at this time**, based on unverified information as entered, a standard repayment period of 33 years, and the program guidelines in effect as of 6/28/2022. You are welcome to submit a complete application (as defined in Handbook-1-3550, Chapter 3, Attachment 3-J) for an official determination. The official determination will be based on verified information, a credit report, the applicable repayment period (which will be 15 years for a manufactured home or may be 38 years under certain conditions), and the prevailing program guidelines. To qualify, an applicant must show adequate repayment ability, have a credit history that demonstrates a willingness ability to meet their debt obligations, and meet the other program requirements. Once we receive a complete application from you, an eligibility determination can be made.

Contact Us for further details on the Direct Loan Program.

Income Summary

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Monthly Insurance/Taxes:	\$166.67
Estimated Maximum Loan Amount:	\$274,230.00

Credit Assessment Summary

The Applicant/Co-Applicant has indicated that they may have:

- Outstanding Tax Lien with No Satisfactory Agreement
- Delinquent Federal Debts

These indicators are not automatic disqualifiers. The Loan Approval Official can make exceptions in limited circumstances, if there is an acceptable explanation for the problem that might justify an exception.

If the potential applicant provided a “Yes” response to any of the six credit history questions, the Self-Assessment Determination Summary will include a Credit Assessment Summary. It will also include the following statement: “These indicators are not automatic disqualifiers. The Loan Approval Official can make exceptions in limited circumstances, if there is an acceptable explanation for the problem that might justify an exception.”

Next we will discuss pre-qualifications conducted by the Agency.

Pre-Qualification Definition

A pre-qualification involves using unverified information from an interested party to evaluate the likelihood of them being able to obtain a Section 502 direct loan.

In limited situations (e.g., the applicant couldn't access the self-assessment tool), the pre-qualification process may be used and includes describing the program requirements to an interested party; gathering basic eligibility and financial information from them; pulling their infile credit report (if authorized); calculating their estimated qualification amount; and discussing the unofficial results with them.

Because information used in a pre-qualification process is not verified, **pre-qualifications done by Agency staff are to be limited.**

Pre-Qualification Process

First refer potential applicants to the Eligibility Self-Assessment Tool!

In limited situations:

- Pre-qualification reviews may be completed, but are not required
- Process is detailed in Handbook-1-3550, Chapter 3
- The interested party should be encouraged to obtain their free annual credit report by calling 1-877-322-8228 or logging into <http://www.annualcreditreport.com>
- Infile report pulled by Agency is a hard hit

Again, RD staff may conduct pre-qualification reviews but they should be limited, and applicants should always first be referred to the self-assessment tool.

Pre-qualifications involving infile credit reports must be entered into UniFi.

As previously mentioned, an infile credit report can be pulled if authorized by the interested party. The interested party can authorize the Agency to order a single repository infile credit report at no charge to them by signing an Authorization to Release Information (Form RD 3550-1). However, the Agency may not provide a copy of this report to the interested party, nor make a decision using information obtained in the report. Additionally, the report is a “hard hit” on the person’s credit.

By law, individuals are entitled to receive one free credit file disclosure every 12 months from each of the nationwide consumer credit reporting companies – Equifax, Experian and TransUnion.

Pre-Qualification Counseling

- Be consistent
- Stress that results are not official
- Application may be submitted at any time

Loan Originators need to provide consistent counseling following a pre-qualification review. While counseling an interested party who does not appear to be likely to qualify, be sure to stress that the results are unofficial and they are welcome to submit an application at any time.

If the results of the pre-qualification review are negative, the interested party should be counseled on how to improve their ability to qualify for the program. Refer to Handbook-1-3550, Attachment 3-F for examples on how to properly respond to various negative pre-qualification results.

Discussing the results of the pre-qualification is an important step to assist the interested party understand possible issues as well as resources.

- Over-Income – If the household income appears to be above the low-income limit, the interested party should be informed about options available for those with moderate-income such as assuming a loan on nonprogram terms, purchasing a REO property on nonprogram terms, a Guaranteed Rural Housing (GRH) loan, or other conventional credit options.

- Low Estimated Maximum Loan Amounts - If the loan amount for which the interested party appears to qualify is not sufficient to purchase a modest, decent, safe, and sanitary house in the area – the Loan Originator should counsel the interested party about other resources such as: subsidized funds (such as affordable housing loans/grants), the need for increased household income, the need to reduce household debt, and/or the possibility of adding additional parties or a co-signer to the note. Keep in mind that a Loan Originator should never tell the interested party they must do these things in order to qualify. An interested party has the right to determine who will apply for the loan and have ownership of the property. It is the role of the Loan Originator to counsel the interested party regarding potential options.
- Candidates for Financing with Private Credit - If an interested party's credit history, income (i.e. they appear to be above the very low-income limit), assets, and lack of need for payment assistance indicate that they should be able to qualify for a GRH loan or private financing, the Loan Originator should ask whether an attempt to obtain such financing has been made. If not, an interested party should be informed that they should attempt to obtain other credit.
- Unacceptable Credit and/or Lack Repayment Ability - If the credit appears unacceptable based on an infile credit report or from information supplied by the interested party; or it appears the interested party lacks repayment ability for a loan, the Loan Originator should counsel the interested party. If the pre-qualification was not conducted face-to-face or over the telephone, the Loan Originator should use Handbook Letter 19 (3550), Pre-Qualification Review, as a way to prompt the opportunity to counsel the interested party in ways to correct these problems. The Loan Originator may encourage the interested party to seek credit counseling or a homeownership education course but should NEVER discourage the interested party from submitting an application.

Regardless of the results of the pre-qualification, if at any point the interested party requests an application, they will be provided with the information they need to apply and their complete application will be processed once received.

Packager Role

Packagers working with applicants who appear ineligible should:

- Provide counseling on the reasons
- Advise they will not continue processing the application
- Advise applicants they can directly apply to the Agency

All packagers are expected to gather and submit the information needed for the Agency to determine if the applicant is eligible. When an interested party does not appear to be a good fit for the 502 Direct program at any time during the packaging process, the packager should counsel them regarding the reasons, advise the applicant that they will not proceed with packaging the application, and notify the interested party that they may apply directly to the Agency.

Pre-Qualification vs. Application



The diagram consists of a dark blue header with the title 'Pre-Qualification vs. Application'. Below the header, on a white background, are two large blue arrows pointing in opposite directions. The left arrow points to the left and contains the text 'Pre-Qualification'. The right arrow points to the right and contains the text 'Application'.

Pre-
Qualification

Application

The pre-qualification review does not apply to someone who has submitted an application. Once an application is received, the application needs to be directly processed using verified information and a Tri-Merge Credit Report (TMCR) so that an official eligibility decision can be rendered. Once an application is received, an infile credit report should never be ordered for a 502 applicant.

Application Process

An interested party can begin the application process by:

- Engaging the service of a loan application packager
- Requesting the Agency send an application package (or obtain in person at their local RD office)
- Applying online via eForms

An interested party can begin the application process by:

- Engaging the service of a loan application packager.
- Requesting that the Agency send them an application package or they can obtain one in person at their local RD office. The package should contain Form RD 410-4 (Uniform Residential Loan Application), Attachment 3-D, Attachment 3-J, and the RD forms referenced in Attachment 3-J.
- Applying online via eForms. To apply online, the interested party will need an eAuthentication account.

Using eForms is beneficial to both the interested party and to RD. For the interested party, eForms provides a convenient and secured way to submit a loan application package to RD that contains all the required documents. For the Agency, eForms streamlines the application process and reduces paper consumption. A link to the eAuthentication registration can be found in the handout for this webinar.

<https://www.eauth.usda.gov/eauth/b/usda/registration/external?verifyIdentity=true>

Applying via a Packager

- Packager can assist with
 - Eligibility/credit counseling
 - Assembling the application
 - Ensuring the program is a good fit
- Find a packager
<https://www.rd.usda.gov/programs-services/single-family-housing-direct-home-loans>

Using the map, select your state to view the contact information

Ideally, an interested party who engages the service of a loan application packager was approached by that packager and that is how they learned about the program. However, they may have learned about this service through the Agency since the Agency provides a list of intermediaries involved in the certified packaging process under the Forms & Resources for Single Family Housing Direct Home Loans link on this slide. By selecting a particular state on this site, interested parties should be able to view the intermediary (or intermediaries) operating in that state plus a list of certified packaging bodies working without an intermediary. Additionally, the local RD office may have discussed this service with the interested party and provided them with the contact information on the packagers in their area. Once an application is received directly from a customer, RD staff will not refer the applicant to a packager.

Regardless of which avenue is taken to begin the process, the interested party must provide the uniform residential loan application and all applicable items in Attachment 3-J, Checklist of Items to Accompany the Uniform Residential Loan Application.

Processing the Application

Upon receipt of an application, it is:

- Review the application to determine if it is complete within 3 business days
 - The credit report fee must be remitted within 3 business days (Note: the credit report is not required to be ordered at the time of remittance of the credit report fee, the TMCR will be ordered at the time the application is selected for processing)
 - If incomplete, HB Letter 11 is sent identifying missing items and providing 15 days for their receipt

Upon receipt of an application, it is:

- Reviewed to determine if it is complete (i.e., fully completed/signed uniform residential loan application and all applicable items from Attachment 3-J) within 3 business days
 - The credit report fee must be remitted within 3 business days (note: the credit report is not required to be ordered at the time of remittance of the credit report fee, the TMCR will be ordered at the time the application is selected for processing)
 - If incomplete, HB Letter 11 is sent identifying missing items and providing 15 days for their receipt

For items in the application package that require the applicant's signature, a copy (or scanned copy) of their wet signature is acceptable. A "wet signature" If the uniform residential loan application was submitted through eForms, the eForms submission constitutes a signature (i.e., a copy of a wet signature is not needed).

If the application was received from a packager/intermediary, it should also contain items outlined in Attachment 3-A such as a loan narrative and the automated income calculator worksheet.

When the application is received from an applicant or a packager/intermediary, it is important to communicate timely and clearly define what information is missing so that the applicant or packager/intermediary may provide it. The intermediary and packager should be copied on any written correspondence from the Agency.

Processing the Application, continued

- The application must be reviewed to determine if the loan estimate disclosure requirement has been triggered
- The application must be entered into UniFi and the 'Date Application Received' field must be entered.
- An electronic case file is established

Also, within 3 business days of receiving an application, the application must be reviewed to determine if the loan estimate disclosure requirement has been triggered, as defined by TRID (i.e., applicant's name, applicant's monthly income, applicant's social security number to obtain a credit report, property address and property information and requested loan amount has been identified on the RD Form 410-4, Uniform Residential Loan Application, and/or a purchase agreement/sales contract has been provided with the application package). (Additional guidance on TRID requirements is in Module 2I)

The application must be entered into Unifi and the 'Date Application Received' field must be entered.

After entering the information into UniFi, an electronic case file is created, field staff should establish the electronic file according to the standardized document types and classifications available in ECF. (Additional guidance on ECF is in Module 2D)

Eligibility

- Verified information from the applicant and third parties
- Make an official decision on the applicant's loan request by:
 - Calculating income
 - Assessing ability and willingness to meet debt obligations
 - Determining repayment ability
 - Determining if they meet other borrower eligibility requirements

Discussing eligibility with the applicant is much like the process used in the pre-qualification process. The big difference is that you are now using verified information from third parties to make a decision.

The official decision on the applicant's loan request is made by:

- Calculating income
- Assessing ability and willingness to meet debt obligations
- Determining repayment ability
- Determining if they meet other borrower eligibility requirements

Once the complete application is reviewed, one of two eligibility decisions are made:

1. The applicant is eligible – in which case one of the following will occur:
 - Form RD 1944-59, Certificate of Eligibility (COE), is issued for a specified loan amount if funds are available.
 - HB Letter 16 is issued if the applicant will be involved in the self-help program.
 - If funds are available and the applicant submitted an option to purchase or sales agreement prior to their eligibility determination (which is strongly discouraged), the property is then reviewed for eligibility.
 - HB Letter 2 (or HB Letter 4 if a property has been identified) is issued if funds are not available.

A favorable determination of eligibility is not a firm commitment or a guarantee of loan funds.

1. The applicant is not eligible – in which case an adverse decision letter is sent.

Certificate of Eligibility (COE)

- Maximum loan amount based on specified criteria (i.e., county where they wish to live, down payment, taxes, insurance, term, interest rate, and other funding sources)
- Homeownership education course requirements
- COE expiration
 - 120 days

The Certificate of Eligibility (COE) informs the applicant about:

- Their maximum loan amount based on specified criteria (i.e., county where they wish to live, down payment, taxes, insurance, term, interest rate, and other funding sources).
- Whether or not they must complete a homeownership education course.
- When their COE will expire – 120 days from date of issuance

Let's assume that the applicant did not submit an option to purchase or sales agreement prior to their eligibility determination (which is strongly encouraged) and that they are determined eligible, funds are available, and a COE is issued.

If the applicant:

- Selects a property in another county or parish, their maximum loan amount may be negatively impacted depending on the new county's area loan limit and income limits. For instance, if the COE was issued for Jones County (with an area loan limit of \$150,000) but the applicant finds a property in the neighboring Smith County (with an area loan limit of \$140,000), the applicant (assuming they qualified for the area loan limit in Jones County) would now be limited to a purchase price of no more than \$140,000.
- Selects a property with homeowner association dues, higher taxes, or higher insurance, their maximum loan amount may be negatively impacted because of these increased housing costs.
- Does not submit an option to purchase or sales agreement within the specified timeframe,

the application will be withdrawn due to the applicant's failure to provide the requested information. The applicant may reapply at a later date by submitting a new complete application.

In the event that an option to purchase or sales agreement falls through or the selected property is not eligible for financing (due to repairs, lack of appraised value, not considered modest, not in a rural area, etc.), a new COE with a new timeframe is issued to the applicant. This allows the applicant time to look for another property.

Effect on the COE

<u>COE issued for \$175,000</u>	<u>Proposed Property</u> <u>Purchase Price \$175,000</u>
Subsidized payment of \$ 600	Subsidized payment of \$ 600
Taxes \$ 200	Taxes \$ 245
Insurance \$ 100	Insurance \$ 100
Total PITI: \$ 900	Flood Insurance \$ 75
	Total PITI: \$1,020
Monthly Income: \$3,000	Monthly Income: \$3,000
Debt Payments: \$ 300	Debt Payments: \$ 300
Total Debt: \$1,200	Total Debt: \$1,320
Repayment Ratios: 30/40	Repayment Ratios: 34/44

In this example, you can see the impact that the specific details of the property can have on an applicant's eligibility. While the COE was issued for \$175,000 and the proposed purchase price is also \$175,000 – the proposed property has more costs associated with it which adversely affects the applicant's eligibility.

Notice that for the proposed property, the taxes are \$45 more per month than estimated, and because the property is in a flood zone, the estimated flood insurance is an additional \$75/month. The resulting repayment ratios no longer fall within the allowable parameters of 33/41.

It is important when issuing the COE, to explain these nuances to the applicant so that when they are considering a property, they take the additional costs into consideration. Applicants should be advised that changes in insurance, taxes, the addition of homeowners' association dues, leasehold interest payments, and other similar charges have an impact on their eligibility and should be considered prior to selecting a property.

The flip side of this is that if the overall taxes and insurance are LESS than what was estimated, the applicant may qualify for a higher loan amount provided that the COE wasn't capped by the area loan limit.

Adverse Decision : Applicant vs. Property

Applicant does not qualify

Over Income
Repayment Ratios
Credit
Assets
Other Eligibility Factors

Application is denied by sending HB Letter 15, Standardized Adverse Decision Letter.

Property does not qualify

Not in Rural Area
Issue with Appraised Value
Not Modest
Other Issues

Property is denied (denial letter varies depending on reason); applicant is not denied and another COE is issued.

Now let's assume that the applicant is determined ineligible.

There are actually two scenarios in which an application may be denied:

One is when the **applicant** does not qualify for the loan; the other is when the **property** does not qualify. For the purpose of this webinar, our focus is on the applicant scenario. However, it is worth pointing out that when the property does not qualify – the property itself is denied, but the applicant remains eligible and is given the opportunity to select another property.

Adverse Decision

While most adverse decisions are appealable, there are decisions that are not appealable such as decisions based on:

- Parties outside the Agency
- The Agency's interest rate
- An official's refusal to request an administrative waiver
- Lack of funds (i.e., program was not appropriated funds)
- Confirmed income is above the program's limits
- Rural area designation

Handbook-1-3550, Appendix 4 and 7 CFR Part 11 provide guidance regarding what is and is not appealable. Let's discuss the non-appealable items that may be applicable to the direct program.

Decisions based on parties outside the Agency: This situation might arise if you have an application which involves a leveraged loan or an affordable housing product. If the other entity cancels their financing and RD cannot provided 100% of the needed financing, the applicant cannot appeal the RD decision because it was based on the decision of the other party.

Decisions based on the Agency's interest rate: An applicant cannot appeal a decision because of the interest rate offered by the Agency at the time of the decision. In other words, if the RD interest rate is 5%, the applicant cannot appeal for a lower interest rate. However, the applicant can appeal if they are alleging that an incorrect interest rate was applied.

Decisions based on an official's refusal to request an administrative waiver under the provisions of Handbook-1-3550, Paragraph 1.12 or a waiver authorized by any applicable regulation. Waivers are exceptions to the rule. An applicant cannot appeal a decision because an approval official did not request or grant a waiver.

Decisions based on lack of funds: This would only apply if the program was not appropriated funds by Congress. This would not apply when appropriated funds are exhausted in a given fiscal year; when this occurs applicants are placed on a wait list.

Decisions based on confirmed income that is above the program's limits: A program loan cannot be granted if the applicant's adjusted income exceeds the low-income limit at the time of eligibility/approval or the moderate-income limit at the time of closing.

Decisions based on the rural area designations: In general, the property must be located in a rural area in order to be financed. If the property is not in a rural area and an exception does not apply, the property (not the applicant) would be denied.

Appealable Decisions

Applicants are informed and can take the following options if they believe the Agency's decision, or the facts used to make the decision are in error:

- Option 1: Informal Administrative Review
- Option 2: Mediation
- Option 3: Appeal

Applicants are informed and can take the following options if they believe the Agency's decision, or the facts used to make the decision are in error:

Option 1: Informal Administrative Review

The purpose is to have an open dialog with the applicant to further explain the Agency decision, hear from them, and allow them to provide any additional supportive information.

Applicant requests in writing to the Agency within the allotted timeframe.

Option 2: Mediation

The purpose is to have a neutral mediator facilitate an open dialog between the applicant and the Agency to resolve disputes about the Agency's decision.

Applicant requests in writing to the Agency within the allotted timeframe.

The Agency will provide a list of mediators and their cost. The cost is generally shared between the applicant and the Agency.

The handling of the mediation process can differ some state-to-state, therefore each state should have a state supplement which outlines their process.

State-Certified, USDA-Funded mediation is available in some locations.

Mediation is an attempt to reach a resolution by mutual agreement, but mediators have no binding authority over the Agency.

Option 3: Appeal

The purpose is to have the National Appeals Division (NAD), which reports directly to the Secretary of Agriculture and is independent from the Agency, provide a fair and timely hearing and appeal to the applicant.

Applicant requests in writing or online to NAD within the allotted timeframe.

The applicant's request must be signed and contain a copy of their adverse decision and a statement as to why they disagree with the Agency's decision. The use of NAD eFile to file a request fulfills any signature requirement.

Appeal Hearing

- The Agency and the applicant provide detailed case information to support their decision/claim.
- The applicant has a right to a face-to-face hearing or may authorize a hearing by phone.
- Both sides present their case, and the NAD Administrative Judge makes a decision.

During an appeal hearing, the Agency and the applicant provide detailed case information to support their decision/claim.

The applicant has a right to a face-to face hearing or may authorize a hearing by phone.

Both sides present their case and the NAD Administrative Judge makes a decision.

The applicant may bring witnesses or an attorney with them to the hearing, or may choose to attend by themselves.

If the Administrative Judge determines that the Agency made the correct decision, the denial will stand. If the Administrative Judge determines that the Agency erred in making its decision, the Administrative Judge will overturn the Agency's decision. In both cases, the Administrative Judge issues a decision in writing and provides the applicant and the Agency any additional review rights which may be available to both parties within a specified timeframe.

In the event that the applicant is denied, they are welcome to reapply at a later date.

It is critical that the denial letter be well written to support the Agency's decision. In the following slides, we will look at a bad and good example of a denial letter.

A Poorly Written Adverse Decision Letter

Your credit report does not demonstrate acceptable credit handling because you have late car payments, a bill in collection, and a credit score of 600.

Writing the adverse decision letter is a critical step to explaining the Agency's decision. Handbook Letter 15 is used to notify the applicant, and within the letter, the specific reasons for the denial should be cited. This example illustrates a poorly written adverse decision letter because:

- The information is vague.
- There are no specific references to 7 CFR 3550 or Handbook-1-3550. References (especially CFR references) are vital so that the applicant and potentially a mediator and/or an Administrative Judge fully understand the basis for the Agency's decision.
- The letter incorrectly implies that the applicant's credit score was used as an eligibility criteria.

If this case was sent to a mediator or NAD, the poorly written adverse decision letter would weaken the Agency's case.

A Well Written Adverse Decision Letter

In accordance with 7 CFR 3550, 3550.53 (h), an applicant must have a credit history which “indicates a reasonable ability and willingness to meet debt obligations”. The following indicators of unacceptable credit as reported on your credit report were considered in our decision: ABC Auto was paid 30 days or more late on three occasions within the last 12 months (see 7 CFR 3550, 3550.53 (h)(1)(i)); and an unpaid collection to XYZ Finance in the amount of \$5,000 with no record of payments (see 7 CFR 3550, 3550.53 (h)(1)(vii)). While your written explanation regarding these accounts was considered, the Agency determined that a credit exception was not warranted and you have a pattern of unacceptable credit handling.

Now let’s look at a well written version. This example is much better since:

- Detailed information is given.
- The specific and full regulatory and handbook references are provided.

With this version, the program requirement is clearly stated as well as why/how the applicant did not meet the requirements. It is also clear that the Agency concluded that a credit exception was not warranted based on information provided by the applicant.

From a customer service perspective, it is best to discuss the reasons for the denial with the applicant in person or by phone so that you can fully explain the denial and they have the opportunity to ask questions. You may also want to provide counseling or refer them to resources which may assist them to become eligible in the future. For instance, if credit is the issue – you may suggest that they reach out to a credit counseling agency for assistance. In any event, always reassure an applicant that they may reapply at a later date. Just because their application is denied today, does not mean they can never reapply.

Withdrawing an Application

- Applicant choice
- Applicant fails to respond to a request for information

During the application process, the applicant may decide they no longer want to proceed with their loan application (for whatever reason). In this situation, the applicant may choose to withdraw their application by notifying the Agency in person, by phone, by email, by a mailed statement, etc. Once notification is received, the RD staff will document the request to withdraw in the applicant's case file and withdraw the application in UniFi.

The applicant may also be withdrawn because the Agency requested information from the applicant within a specified timeframe and the applicant failed to respond/provide the information requested. If the applicant does not respond within the specified timeframe, the application is withdrawn because the Agency is unable to make a decision without the information and the only remaining action to take regarding the application is to withdraw it.

While it's permissible to allow a little extra time to account for such things as the time it takes for the post office to deliver mail, RD staff should not allow applications to be "inactive" for a long period of time. Let's suppose that HB Letter 11 was sent to an applicant on 7/1 - giving them 15 days to provide copies of their paystubs. While the applicant should technically have the information to the RD office by 7/16, the RD office may decide to wait to withdraw the application if the information isn't received by 7/20.

Since requests for information contain instructions on when the information must be provided and indicate that the application will be withdrawn for failure to respond, applicants

are not notified when their application is withdrawn due to their failure to respond.

Under no circumstance should RD staff encourage an applicant to withdraw their application vs. denying their application with review, mediation, and appeal rights if appealable.

Self-Assessment, Pre-Qualification and Application Processes

In this webinar, we have examined the program's self-assessment, pre-qualification and application processes from a high-level perspective.

The following aspects of the application process will be separately discussed in detail: Income, Credit, Repayment Ability, Assets, and Other Eligibility Requirements.

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Section 502 Direct Loan Program Overview

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**Are you interested in learning more about the
Single Family Housing Direct Programs?**

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Contact information can be found at <https://www.rd.usda.gov/contact-us/state-offices>

Finally, please note that the contents of this webinar are current as of this presentation's revision date. Please refer to Handbook-1-3550 for the most recent program guidance.