

Single Family Housing Guaranteed Loan Program HB-1-3555 Chapter 10 Revision Aid

HB-1-3555 Chapter 10 Credit Analysis has been revised to clarify credit qualifications, adverse credit, and Federal debts.

The handbook chapter has been streamlined to eliminate 16 pages. A Credit Matrix is added to assist users to efficiently locate credit topics.

10.1: Introduction

Streamlined: The Introduction to Chapter 10 was streamlined to only state the purpose of the guidance. No policy changes

10.2: Credit Eligibility Requirements

NEW: Delinquent child support is added as ineligible adverse credit, unless there is a repayment agreement in place with three timely payments made prior to loan closing, the arrearage is paid in full prior to loan closing, or there is a release of liability. Timely payments are defined in the matrix as those made in congruence with the repayment agreement. Lump sum payments made to equal two or more timely payments are ineligible.

Streamlined: Duplicative language was removed.

NEW: Credit Alert Verification Reporting System (CAIVRS) has a section in Attachment 10-A.

Clarification: The CAIVRS response must be an "A" for the applicant to be eligible for a guaranteed loan. If the CAIVRS result is not an "A" in GUS, lenders may obtain an "A" response outside of GUS and include this documentation with the final submission.

10.3: Credit Report Requirements

Streamlined/Clarified: Automated Merged Credit Reports and Residential Mortgage Credit Reports (RMCR) remain eligible.

Removed: A RMCR is not required for disputed accounts, as supporting documentation for reduced balances, open items, etc. Lenders have flexibility to document the loan file and retain evidence to support data entries without the use of a RMCR as applicable.

NEW: Lenders must determine if joint applicants (married/unmarried) require separate credit reports per Federal/State lending law. USDA does not regulate these requirements.

Clarification: USDA does not require unmarried applicants to be on the same credit report, loan application, Form RD 3555-21, etc. Lenders must determine the correct use of forms and disclosures due to Federal/State lending law.

NEW: Frozen credit must be available from all repositories. There are no exceptions.

10.4: Credit Report Versions

Streamlined: Guidance was streamlined with no changes to requirements.

10.5: Validating the Credit Score to Establish the Applicant's Credit Reputation

Removed: This section has been removed. Refer to Attachment 10-A: Credit Scores and Validation.

Comparison of 10.5 to the new Credit Scores and Validation:

Streamlined: Duplicative and unnecessary language was removed.

NEW: GUS Accept loans do not require credit score validation.

NEW: Deferred loans are eligible tradelines to validate a credit score. The history of non-payment, increase of balance owned, etc. are reflected in the credit score.

NEW/Clarification: GUS Refer, Refer with Caution, and manually underwritten loan files are not eligible for debt ratio waivers if: 1. There is not one applicant with a validated credit score using traditional tradelines on the credit report or 2. The file requires non-traditional tradelines.

10.6: Obtaining Non-traditional Credit

Removed: This section has been removed. Refer to Attachment 10-A: Non-Traditional Credit.

Comparison of 10.6 to new Non-Traditional Credit:

Streamlined: Methods of documentation language has been streamlined for clarity.

Clarification: Child support, alimony, garnishments, court ordered debts, monthly subscription services, gym memberships, etc. are not eligible non-traditional tradelines. Subscription services and memberships are not credit obligations.

NEW/Clarification: Applicant's that utilize non-traditional credit to qualify for a guaranteed loan are not eligible for debt ratio waivers.

10.7: Credit Scores

Removed: This section has been removed. This section provided a small amount of guidance for topics addressed in full in other areas of the Chapter.

Streamlined: Guidance that was removed included credit score specific thresholds for additional documentation or consideration. This distinction is not necessary.

Refer to Attachment 10-A:

- Credit Scores and Validation
- Foreclosure/Repossession
- Bankruptcy: 7 and 12/13
- Rent/Mortgage Payment History
- Short Sale

- Disputed Accounts: Non-Derogatory and Derogatory
- Authorized User Accounts

Comparison of 10.7 to new update topic areas above:

NEW: GUS Accept credit score validation has been removed. Lenders do not have to validate the credit score for GUS Accept recommendations.

NEW/Removed: Downgrading a GUS Accept file due to manually entered liabilities.

NEW/Removed: Downgrading a GUS Accept file due to eligible disputed accounts.

10.8: Credit Exceptions

Removed: This section has been removed. Refer to Attachment 10-A: Credit Exceptions.

Comparison of 10.8 to new Credit Exceptions:

Streamlined: Guidance has been reduced for clarity.

NEW: Credit exceptions must include the lender’s rationale for the credit exception to include identified compensating factors.

NEW: Applicant documentation provided to the lender to support the circumstances contributing to the adverse credit does not have to be submitted to USDA. The lender will retain documentation in their permanent file.

Clarification: USDA does not approve the lender’s credit exception.

10.9: Collection Accounts

Removed: This section has been removed. Refer to Attachment 10-A: Collections.

Comparison of 10.9 to new Collections:

Streamlined: Guidance has been reduced for clarity. Lenders must continue to review the applicant credit history in full to determine if they have a history of an ability and willingness to pay their debts.

Reminder: USDA does not require medical collections to be paid.

Removed: Charge-off accounts are not included in the capacity analysis with non-medical collections. Refer to Attachment 10-A: Charge-offs.

Clarified: If the cumulative total of all **non-medical** collections exceeds \$2,000, one of the three listed options in this section of the matrix must be met.

NEW: A credit exception is not required for GUS Accept (this is not new for GUS Accepts files, it is provided as a clarification), Refer, Refer with Caution, or manually underwritten loan files when the required payoff or monthly payment is included in the monthly debts.

10.10: Non-Federal Judgments

Removed: This section has been removed. Refer to Attachment 10-A: Non-Federal Judgments.

Clarification: GUS Accept files do not require a downgrade for the manual entry of an eligible monthly payment plan.

10.11: Disputed Accounts

Removed: This section has been removed. Refer to Attachment 10-A: Disputed Accounts.

Comparison of 10.11 to Non-Derogatory and Derogatory Disputed Accounts:

NEW: There are two sections for disputed accounts: Non-Derogatory Disputed Accounts and Derogatory Disputed Accounts. Below are some highlights of both account types.

Non-Derogatory Disputed Accounts:

NEW: In addition to the current four methods to retain a GUS Accept without the need for a downgrade, three additional criteria have been added to provide additional flexibility:

- The payment stated on the credit report is included in the monthly debts;
- A documented payment from the creditor is included in the monthly debts; or
- Five percent of the stated account balance on the credit report is included in the monthly debts.

NEW: GUS Refer, Refer with Caution, and manually underwritten files must include one of the following:

- The payment stated on the credit report;
- Five percent of the loan balance of the account; or
- A lesser amount documented from the creditor.

NEW: No credit exception is required for GUS Refer, Refer with Caution, or manually underwritten loan files.

Disputed Derogatory Accounts:

NEW: Lenders may exclude the following disputed accounts to arrive at a cumulative total of disputed derogatory accounts that must be considered in the monthly debts:

- Disputed medical accounts/collections;
- Charged-off accounts;
- Disputed derogatory accounts that are the result of identity theft, credit card theft, or unauthorized use when evidence is provided to support the applicant's explanation; or
- Accounts of a non-purchasing spouse in a community property state.

NEW: GUS Accept files with less than \$2,000 in disputed derogatory accounts must include a minimum monthly payment for each account:

- The payment stated on the credit report;
- Five percent of the balance of the account; or
- A lesser amount documented from the creditor.

No credit exception is required.

NEW: GUS Accept files with more than \$2,000 of disputed derogatory accounts must be downgraded to a Refer.

NEW: GUS Refer, Refer with Caution, and manually underwritten files must include a minimum monthly payment for each account:

- The payment stated on the credit report;
- Five percent of the balance of the account; or
- A lesser amount documented from the creditor.

No credit exception is required.

10.12: Authorized User Tradelines

Removed: This section has been removed. Refer to Attachment 10-A: Authorized User Accounts (AU).

Comparison of 10.12 to Authorized User Accounts (AU):

NEW: This section has been streamlined to clearly state AU accounts are not the legal responsibility of the AU.

NEW: Lenders may include the monthly payment at their discretion based on their review of the loan file.

Clarification: To determine the use of an AU account for credit score validation, refer to the Credit Scores and Validation section.

10.13: Rent History

Removed: This section has been removed. Refer to Attachment 10-A: Rent/Mortgage Payment History.

Comparison of 10.13 to Rent/Mortgage Payment History:

Clarification: GUS Accept files do not require a Verification of Rent (VOR). No credit exception for an applicant's lack of a rental history is not (and never has been) required.

Clarification: GUS will state in the Underwriting Findings Report if a VOR is required. If a full 12-month history is not available, verify the length of history that does exist.

Clarification: GUS Refer, Refer with Caution, or manually underwritten files with one rent or mortgage payment paid 30 days or more past due is a significant derogatory credit and will require a credit exception.

10.14: Payment Shock

Removed: This section has been removed.

Payment shock is not required to be considered for guaranteed loan eligibility.

Lenders may continue to compare the current rent or mortgage payment to the proposed total mortgage obligation for compensating factor analysis/positive loan characteristic.

10.15: Non-Purchasing Spouse Credit History

Removed: This section has been removed. Refer to Attachment 10-A: Non-Purchasing Spouse Debts (NPS).

Comparison of 10.15 to Non-Purchasing Spouse Debts (NPS):

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

10.16: Prudent Underwriting

Removed: This section has been removed.

USDA does not offer “pre-approvals” and GUS is not a substitute for final underwriting judgment from a human underwriter. Approved lenders are responsible for all lending decisions per their lender agreement, Form RD 3555-16.

Attachment 10-A: Credit Underwriting

Removed: This section has been removed.

Revised: The new Attachment 10-A: Credit Matrix.

Attachment 10-B: The Credit Review

Removed: This attachment has been removed. Each topic is addressed in the new Attachment 10-A.

Highlights of sections previously covered in this Attachment are below.

Recent/Undisclosed Debts/Increased Balance of Existing Debts Identified After A Conditional Commitment Is Issued

Previously known as “Recent and/or Undisclosed Debts and Inquiries.”

NEW: If an existing debt increases, a new debt not on the credit report in GUS is identified, real estate taxes increase, hazard insurance increases, HOA fees/special assessments increase, etc.: if the cumulative total does not exceed \$50, lenders may retain their issued Conditional Commitment with no updates required.

NEW: If the debts listed above increase \$51 or more, the issued Conditional Commitment will be void. The lender must request the release of GUS or update a manual file, submit a new final submission to USDA, and receive a new Conditional Commitment.

Foreclosure and Deed-in-Lieu of Foreclosure

NEW: These two topics each have their own section for guidance.

NEW: For foreclosure guidance refer to Attachment 10-A: Foreclosure or Repossession.

NEW: For Deed-in-Lieu guidance refer to Attachment 10-A: Deed-In-Lieu (DIL).

Chapter 7 Bankruptcy

Refer to Attachment 10-A: Chapter 7 Bankruptcy (BK).

Chapter 13 Bankruptcy

Refer to Attachment 10-A: Chapter 12 or 13 Bankruptcy (BK)

NEW: Chapter 12 bankruptcy guidance has been added.

NEW: If the applicant cannot obtain written permission from the bankruptcy court/trustee to enter into a mortgage transaction, the lender may determine the applicant is an acceptable credit risk. All other requirements stated in this section must also be met for a GUS Refer, Refer with Caution, or manually underwritten loan file with a Chapter 12/13 BK in progress.

Consumer Credit Counseling Plans

Refer to Attachment 10-A: Consumer Credit Counseling – Debt Management Plans.

NEW: If the applicant cannot obtain written permission from the credit agency to enter into a mortgage transaction, the lender may determine if the applicant is an acceptable credit risk.

NEW: No credit exception is required for GUS Refer, Refer with Caution, or manually underwritten loan files.

Short Sales

Refer to Attachment 10-A: Short Sale.

Charge-off Accounts

Refer to Attachment 10-A: Charge-offs.

NEW: GUS Refer, Refer with Caution, or manually underwritten loans do not require credit exceptions for charge-off accounts. The degradation of credit is reflected in the credit score.