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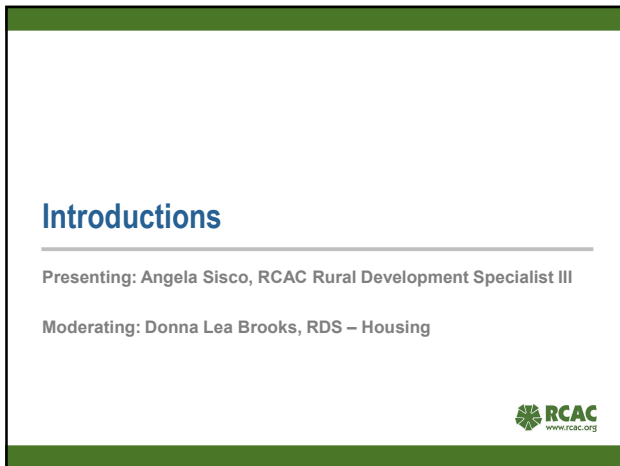
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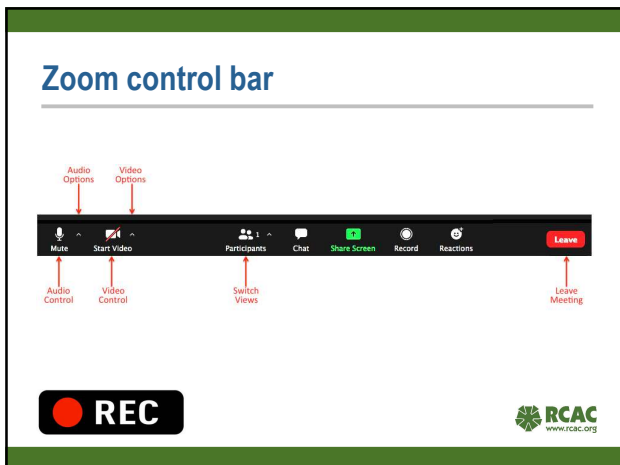
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## Webinar Etiquette

- ✓ Be present and engaged
- ✓ Use chat for questions
- ✓ Have fun learning and sharing!



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## Handouts




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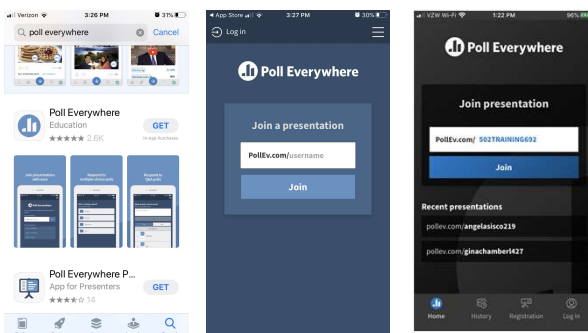
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## Join Poll Everywhere using the App



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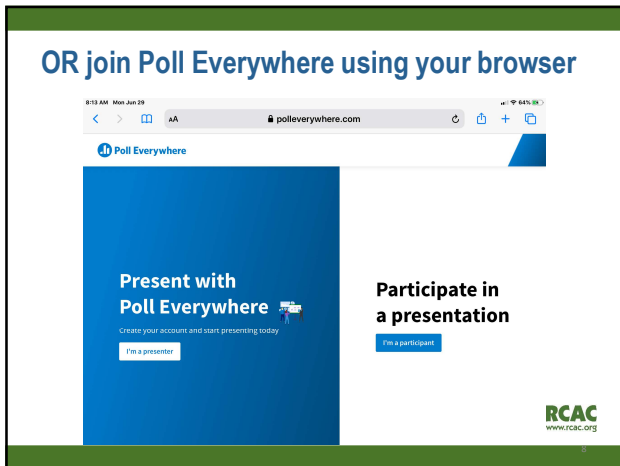
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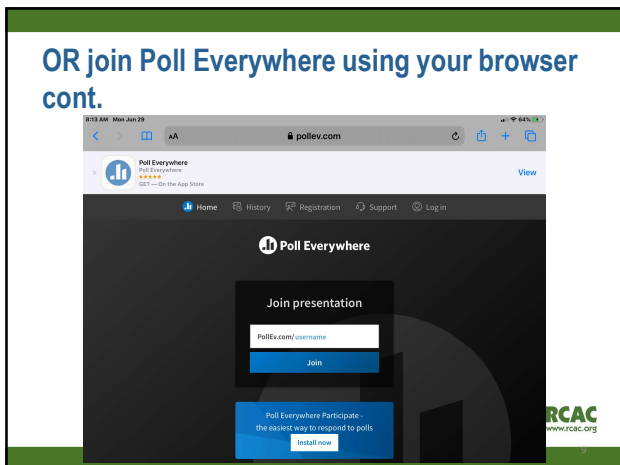
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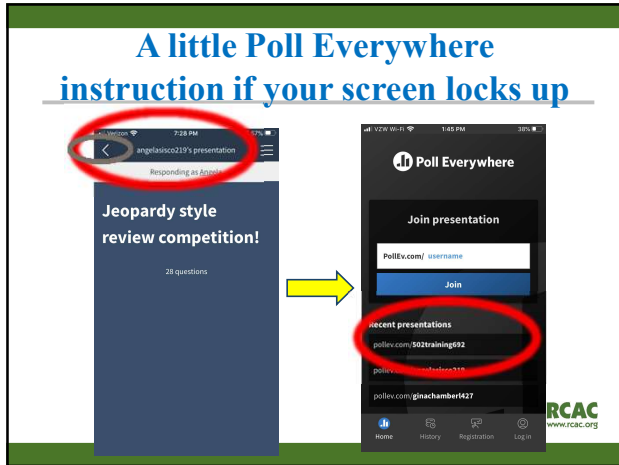
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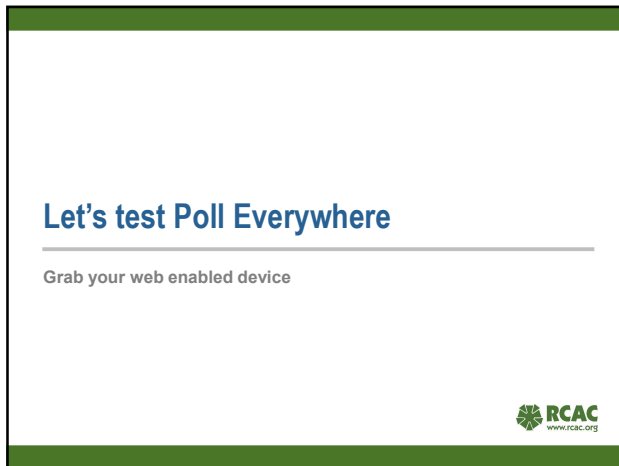
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## Creditworthiness

Evaluating a borrower's creditworthiness requires a determination of the applicant's ability and willingness to meet obligations.

Ability – Income availability and reliability

Willingness – Credit payment history

Credit history of last 3 years is evaluated



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## Whose Credit is Reviewed?

### Tri Merge Credit Report (TMCR) obtained for ALL note signers

#### Community Property states Only

Non-Purchasing Spouse (NPS) Considerations:

- Obligations must be considered in the Total Debt (TD) ratio
- NPS must provide a copy of their credit report
- Judgements of a non-purchasing spouse must be paid in full, unless exception granted by the Loan Approval Official



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## Reviewing the Credit Report

- Compare applicant, employment, account and credit information with the application
  - Ask the applicant to clarify discrepancies
- If score is below 640, identify unacceptable credit and ask applicant for an explanation letter



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## Reviewing the Credit Report (continued)

- Is the applicant responsible for the trade line or an authorized user?
- Review credit inquiries and confirm whether the applicant has obtained credit that is not yet reflected on the report
- Highlight any other areas of concern and develop a list of questions or issues that need clarification from the applicant



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## Which Credit Score to Use?

- If 3 scores – use the middle score
- If 2 scores - use the lowest score
- If 1 score or 0 is reported
  - a full/manual credit analysis must be completed
  - obtain alternate credit verifications if needed\*

\*alternate credit cannot be used to offset derogatory credit



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## Streamlined Credit Analysis

Applicants who have:  
a positive DNP result,  
more than one credit  
score and a score of  
640 or higher



And who  
do not have:  
outstanding federal  
judgments, and/or  
a significant  
delinquency

**ARE CONSIDERED TO HAVE  
ACCEPTABLE CREDIT**

(regardless of whether the TMCR lists other  
credit "blemishes")



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## Significant Delinquency

In past 36 months prior to application date:

- A foreclosure, Deed-in-lieu of foreclosure, short sale, or mortgage charge-off has been completed
- A discharged Chapter 7 bankruptcy
- Agency debts that were debt settled or are being considered for debt settlement.



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## Significant Delinquency (continued)

Chapter 13 bankruptcy is a significant delinquency if the applicant:

- Did not successfully complete the debt restructuring plan (i.e. quit making payments) OR
- Has not made the last 12 months of payments according to the restructuring plan OR
- They don't have written authorization from bankruptcy court to incur RD loan



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## Credit Scores and Acceptability

IF the applicant has at least two credit scores on the TMCR, the applicable score is reliable regardless of how many trade lines are on the TMCR:

THEN, if that reliable score is 640 or higher:

- Don't need to verify their rental history
- Don't look at alternative credit or the indicators of unacceptable credit provided that the applicant has no outstanding judgments from the US in Federal court and no significant delinquency

= Streamlined Credit Analysis



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### Credit Scores and Acceptability

IF the applicant has at least two credit scores on the TMCR, but that reliable score is less than 640:

THEN, obtain other credit verifications as outlined in HB-1-3550, Chapter 4, Paragraph 4.12 C. and a full credit analysis is needed



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### Credit Scores and Acceptability

If the score (regardless of the number) is not reliable because there are less than two scores on the TMCR:

THEN, obtain other credit verifications as outlined in HB-1-3550, Chapter 4, Paragraph 4.12 C. and a full credit analysis is needed



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### Poll Everywhere question

Grab your Poll Everywhere web enabled device



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### Below 640 and Insufficient Credit

- Verification of rent/mortgage
  - Obtain if score is below 640, only one score or no score
  - Cannot be from a relative
  - Counts as "two sources"
- Nontraditional credit (if needed)
  - Need a total of 3 sources which can be a combination of credit report tradelines, alternative credit, and landlord reference
  - Cannot outweigh adverse credit



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### HB-1-3550, Chapter 4, Paragraph 4.12 C. and full credit analysis

- Landlord Verification
- For applicants with less than two scores, if a credit history needs to be developed:
  - At least three sources (combination of traditional and non-traditional)
  - OR two sources if one is a verification of rent/mortgage
- Evaluate credit using **Exhibit 4-4**



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### Insufficient Credit Examples

Amy has one score of 600, based on a revolving credit card, paid as agreed with a \$200 balance that has been open for 15 months.

Supplement with:  
One landlord reference  
OR 2 alternative credit sources

Eric has one score of 580 based on 4 tradelines which are all in collection.

It does not appear that delinquencies were a result of items beyond his control or that he has attempted to correct them.

Alternate credit is not needed as it cannot outweigh the negative credit. Counseling is recommended.



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## Nontraditional Credit Sources

### Preferred Sources

- Rent
- Utilities (not included in rent)
- Telephone
- Cable TV/internet
- Insurance payments (other than payroll deductions)

### Alternative Sources

- Child Care
- School tuition
- Payments to local retail stores
- Payment arrangements for medical bills
- Savings history (resulting in a 3 month PITI balance)



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## Poll Everywhere question

Grab your Poll Everywhere web enabled device



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## Indicator vs. Disqualifier

- |  |   |
|--|---|
| <ul style="list-style-type: none"> <li>• Red Flag Indicator—little or no history on report; adverse credit</li> <li>• Ask/Evaluate:                             <ul style="list-style-type: none"> <li>• What was the reason/why did it happen? And is that resolved?</li> <li>• What was done to correct it?</li> </ul> </li> </ul> | <ul style="list-style-type: none"> <li>• Delinquent on a Federal debt (the RHS Administrator may grant an exception if payment agreement in place and in best Interest of the government)</li> <li>• Outstanding judgment obtained by the United States in Federal Court (statutory – no exceptions)</li> </ul> |
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## Indicators of Unacceptable Credit Exhibit 4-4

- 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, 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, 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 long-term self-sufficiency.



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## Indicators of Unacceptable Credit part 1

- Little or no credit history.
- Payments on any installment account, on a per account basis, 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, which was delinquent for more than 30 days on two or more occasions within the last 12 months.



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## Indicators of Unacceptable Credit part 2

- A foreclosure that has been completed within the last 36 months.
- An outstanding 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.



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### Indicators of Unacceptable Credit part 3

- Outstanding collection accounts with irregular payments/no satisfactory arrangements for repayment.
- Collection accounts that were paid in full within the last 6 months, unless the applicant had been making regular payments previously.



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### Indicators of Unacceptable Credit part 4

- 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.



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### Indicators of Unacceptable Credit part 5

- A court-created/affirmed obligation or judgment that is outstanding 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 (i.e. Chapter 7); or
    - A successfully completed bankruptcy debt restructuring plan (i.e. Chapter 13) which demonstrates 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.



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## RD May Consider Credit Exceptions

- Reduced Shelter Costs
- Benefit to the Government
- Temporary Situation



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## Considering Credit Exceptions

Why Did it Happen? Is the issue resolved?

Jeremiah worked full time as a roofer until a piece of equipment fell off the roof, breaking his leg. As a result, he was unable to work and his income was reduced for 3 months. He went back to work full time 6 months ago.

Josiah worked full time at the local grocery store. He quit because he didn't want to work the swing shift. He was on unemployment 3 months until he found part time work.



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## Poll Everywhere question

Grab your Poll Everywhere web enabled device



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## Verifications



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## Verifications

- Oral Verifications
  - ONLY RD staff are required to do oral verifications and required for employment less than one year or if inconsistent or suspicious
- Disability can be verified by forms of income
- Installment or revolving accounts are evaluated on a per account basis
- Chapter 13 bankruptcy must have written permission from court



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## What Do I Use to Verify?

### HB-1-3550, Chapter 4, 4.3 Use preferred sources

3<sup>rd</sup> party generated documents that the applicant has readily available in hard copy or can obtain online (i.e. pay stubs, award letters, bank statements, etc.)

### Example: Wages/Salary

Preferred: Paycheck Stubs/Earning statements for the past 4 consecutive weeks

Next Alternative: Electronic verification

Last Alternative: Written VOE



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## Verification Requirements

Paragraph 4.3 Sources of Income

Type of Income or Verification Source	Verification Requirements and Procedures
For SELF-Employed PERSONS	(If Preferred Source of Verification cannot be obtained without cost, Acceptable Alternative may be used.)
Income & Expense Statement	
Preferred Source	
INCOME	
Type of Income or Verification Source	Verification Requirements and Procedures
WAGES or SALARY	The applicant must list all household members on the application and provide their employment status. They must be consecutive and "most recent" 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:
Paycheck stubs or Payroll Earnings Statements for not less than four (4) consecutive weeks	
Preferred Source	
AND	Document in the routing record the date of contact and list: The employer's name, address, phone number, contact person and title, the employee's name, follows:

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## Only verify what is necessary

- No need for a Landlord verification or non-traditional credit if the score is more than 640, and there are no significant delinquencies.
- No need to provide 6 months of data if only 2 months are needed
- No need to provide medical expenses if it's not an elderly household



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## Other Potential Verifications

- Recurring Unemployment Income (i.e. for seasonal workers)
- Qualified alien
  - only request if the application indicates the applicant is not a U.S. Citizen
  - If the application is checked YES for citizen, no additional verification is needed.



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## Other Eligibility Requirements



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## Other Eligibility Requirements

- Unable to obtain credit elsewhere
- Agree to occupy the dwelling
- Legal capacity to incur debt (typically 18 years old and legally competent)
- No Suspension or debarment
- Meet citizenship or eligible non-citizen
- Willing and able to repay the loan
- Proof of identity



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## Homeownership Education Requirements

- Required for first time homeowners (an applicant who has not owned a home in the past 3 years)
- Submit evidence of RD approved course with package, Certificate valid up to two years prior to closing
- National providers and each RD State Office maintains a list of state specific providers.
- Refer applicants to free homeownership education programs first.



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## Homeownership Education

Preference order for Homeownership Education:

1. Classroom, one-on-one or interactive video conference
2. Interactive home-study with phone counseling
3. Online counseling

The education fee may be included in the loan above the appraised value.



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## Poll Everywhere question

Grab your Poll Everywhere web enabled device



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## SELF-HELP 502 GUIDEBOOK

PROVIDED BY REGIONAL T&MA CONTRACTORS  
SECTION 523 MUTUAL SELF-HELP



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## Evaluation Survey

- You will receive an evaluation after you log out of the webinar, please complete this to let us know what we did right and where we can improve.
- Add to the Word Cloud on the next slide of one or two words of evaluation this training.



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Questions?



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