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## 502 Loan Packaging

National SH Conference 2/5/2020  
10:15 – 11:45 AM

# **Procedural Notices**

## **Final Rule**

## **Temporary Authorizations**

## **Special Procedural Notices**

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# The Final Rule

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June 21, 2019



## Income Banding



- Income limit structure which bands together 1-4 person households using the 4-person income level set by HUD, and 5-8 person households using the 8-person income level established by HUD
- Will be used to determine all limits for very low-income, low-income, moderate-income, 38 year term and adjusted median income



# Income Banding Continued

## The old methodology

STATE:ALASKA		----- ADJUSTED INCOME LIMITS -----							
P R O G R A M		1 PERSON	2 PERSON	3 PERSON	4 PERSON	5 PERSON	6 PERSON	7 PERSON	8 PERSON*
Anchorage, AK MSA									
Anchorage, AK HUD Metro FMR Area									
HOME OWNERSHIP									
AREAS WITH A ROAD SYSTEM (115%)									
RHS GRANT INCOME	19600	22400	25200	28000	30250	32500	34750	37000	
RHS VERY LOW INCOME	32700	37350	42000	46700	50450	54150	57900	61650	
RHS LOW INCOME	52300	59750	67250	74700	80700	86650	92650	98600	
RHS MODERATE INCOME	57800	65250	72750	80200	86200	92150	98150	104100	
RHS 38 YEAR TERM	39200	44800	50450	56050	60500	65000	69450	73950	
AREAS WITHOUT A ROAD SYSTEM (150%)									
RHS GRANT INCOME	30150	34450	38750	43050	46500	49950	53400	56850	
RHS VERY LOW INCOME	50250	57400	64600	71800	77500	83250	89000	94750	
RHS LOW INCOME	80400	91850	103350	114850	124050	133200	142400	151600	
RHS MODERATE INCOME	85900	97350	108850	120350	129550	138700	147900	157100	
RHS 38 YEAR TERM	60300	68900	77500	86150	93000	99900	106800	113700	
Matanuska-Susitna Borough, AK HUD Metro FMR Area									
HOME OWNERSHIP									
AREAS WITH A ROAD SYSTEM (115%)									
RHS GRANT INCOME	19600	22400	25200	28000	30250	32500	34750	37000	
RHS VERY LOW INCOME	32700	37350	42000	46700	50450	54150	57900	61650	
RHS LOW INCOME	52300	59750	67250	74700	80700	86650	92650	98600	
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RHS 38 YEAR TERM	60300	68900	77500	86150	93000	99900	106800	113700	



# Income Banding Continued

## Effective July 22, 2019

HB - 1 -3550, APPENDIX 9  
STATE:ALASKA

----- ADJUSTED INCOME LIMITS -----								
PROGRAM	1 PERSON	2 PERSON	3 PERSON	4 PERSON	5 PERSON	6 PERSON	7 PERSON	8 PERSON*
Anchorage, AK MSA								
Anchorage, AK HUD Metro FMR Area								
HOME OWNERSHIP								
AREAS WITH A ROAD SYSTEM (115%)								
RHS GRANT INCOME	20150	23000	25900	28750	31050	33400	35700	38000
RHS VERY LOW INCOME	47950	47950	47950	47950	63300	63300	63300	63300
RHS LOW INCOME	76750	76750	76750	76750	101300	101300	101300	101300
RHS MODERATE INCOME	110300	110300	110300	110300	145600	145600	145600	145600
RHS 38 YEAR TERM	57550	57550	57550	57550	75950	75950	75950	75950
AREAS WITHOUT A ROAD SYSTEM (150%)								
RHS GRANT INCOME	31400	35900	40400	44850	48450	52050	55650	59200
RHS VERY LOW INCOME	74800	74800	74800	74800	98700	98700	98700	98700
RHS LOW INCOME	119650	119650	119650	119650	157900	157900	157900	157900
RHS MODERATE INCOME	172000	172000	172000	172000	227000	227000	227000	227000
RHS 38 YEAR TERM	89750	89750	89750	89750	118450	118450	118450	118450
Matanuska-Susitna Borough, AK HUD Metro FMR Area								
HOME OWNERSHIP								
AREAS WITH A ROAD SYSTEM (115%)								
RHS GRANT INCOME	20150	23000	25900	28750	31050	33400	35700	38000
RHS VERY LOW INCOME	47950	47950	47950	47950	63300	63300	63300	63300
RHS LOW INCOME	76750	76750	76750	76750	101300	101300	101300	101300
RHS MODERATE INCOME	110300	110300	110300	110300	145600	145600	145600	145600
RHS 38 YEAR TERM	57550	57550	57550	57550	75950	75950	75950	75950
AREAS WITHOUT A ROAD SYSTEM (150%)								
RHS GRANT INCOME	31400	35900	40400	44850	48450	52050	55650	59200
RHS VERY LOW INCOME	74800	74800	74800	74800	98700	98700	98700	98700
RHS LOW INCOME	119650	119650	119650	119650	157900	157900	157900	157900
RHS MODERATE INCOME	172000	172000	172000	172000	227000	227000	227000	227000
RHS 38 YEAR TERM	89750	89750	89750	89750	118450	118450	118450	118450



## Income Limits

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Find 502 Direct Loan Program adjusted income limits at:

<http://eligibility.sc.egov.usda.gov/eligibility/welcomeAction.do>

Select “Single Family Housing Direct” and then “Income Limits”



## Borrower Assets Updated with Final Rule

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Removes the requirement that net family assets be included in the calculation of repayment income.

Net family assets removed from repayment

Net family assets still included for annual income and down payment





## **Borrower Assets Updated with Final Rule**

### **Continued**

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Excludes voluntary retirement accounts, tax advantaged college savings plans, health or medical savings accounts and the cash value of life insurance,

- 529's
- 401(k)'s and Keogh accounts
- FSA and HSA's



## Retirement Assets:

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

Savings/investments specifically designated as retirement funds, with access restricted by law, employer policy, or both



## Borrower Assets Updated with Final Rule Continued

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- Removes the value, in excess of the consideration received, for any business or household assets disposed of for less than the fair market value during the 2 years preceding the income determination.
- Will now include in net family assets any equity in capital investments.



## HB-1-3550, Chapter 4, Exhibit 4-3 details asset types which are/are not

### Exhibit 4-3 Types of Assets

The following types of assets must be considered.

**Non-retirement assets including:**

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



## New Loan Limit Methodology

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- Previously obtained through market analysis
- Is now 80% percent of the FHA Forward One-Family mortgage limits (the HUD 203(b) limit)
- Effective August 5, 2019



## Temporary and Special Authorizations in FY19 that have been incorporated

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February 25, 2019, April 15, 2019 and July 22, 2019



## General Changes

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- Applicants qualifying for payment assistance are presumed to be unable to obtain credit from other sources
- Alimony and child support applicants do not need to take legal action to collect amounts due as a precursor to eligibility



## Verifications

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- 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





## 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



## HB-1-3550, Chapter 4, 4.3 Preferred sources (Child Support)

Alimony or Child Support Payments <b>Preferred Source</b>	The applicant (or adult household member) <b>must</b> obtain a payment history for the last 12 months from the court appointed entity responsible for handling payments. The average amount received will be used in the income calculations.
Electronic Verification <b>Acceptable Alternative</b>	The two most recent bank statements showing electronic deposit of the monthly alimony and/or child support received <b>AND</b> a copy of the court appointed divorce decree or separation agreement (if the divorce is not final) that provides for the payment of alimony or child support and states the amount and the period of time over which it will be received.
Divorce Decree <b>Acceptable Alternative</b>	If ( <b>and only if</b> ) a source of income was awarded in the decree, and there is not a court appointed entity responsible for handling payments, the applicant (or adult household member) may provide a copy of the divorce decree, separation agreement, or other document indicating the amount of the required support payments. If the applicant reports that the amount required by the agreement is not being received, the applicant must provide adequate documentation of the amount being received (i.e. copies of the checks or money orders from the payer, etc.) and certify the payments are being received or not received.
Cancelled Checks <b>Acceptable Alternative</b>	If ( <b>and only if</b> ) there is not a court appointed entity responsible for handling payments and formal documents were never issued, support payments can be certified as being received or not received.

## Only verify what is necessary

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- 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



## And another name change

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Customer Service Center (CSC)  
is now  
National Finance and Accounting Operations  
Center (NFAOC)



# Evaluating Credit

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Incorporating all changes



## Creditworthiness

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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



## Whose Credit is Reviewed?

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### **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 credit history is never considered a reason to deny a loan; but they must provide a copy of their credit report



## CREDIT SCORES

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- Credit decisions are ultimately based on RD's Tri -Merge Credit Report.
- Credit reports are used to determine if an applicant has a **recent** history (preferably within the last 12 months) of consistently and dependably making payments.
- New determination of acceptability is first evaluated on credit score





## Which Credit Score to Use?

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- 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



## 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



## What is a significant delinquency?

In past 36 months prior to application date:

- A foreclosure, deed-in-lieu of foreclosure, short sale, or mortgage charge-off that has been completed within the last 36 months.
- A Chapter 7 bankruptcy discharged less than 36 months prior to the application date.
- A Chapter 13 bankruptcy where the applicant has not successfully completed the debt restructuring plan or has not demonstrated a willingness to meet obligations when considering the last 12-month payments made under the restructuring plan.
- Agency debts that were debt settled within the past 36 months, or are being considered for debt settlement.



27

## Credit Scores and Acceptability

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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



## Credit Scores and Acceptability

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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



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

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- 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



## INDICATORS of UNACCEPTABLE CREDIT

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- Little or no credit history;
- Payments on any installment account where the amount of the delinquency exceeded one installment for more than 30 days within the last 12 months;
- Two or more late payments 30 days late within past 12 months on revolving debt;
- Foreclosure in past 36 months;
- Outstanding tax liens;
- 2 or more rent payments > 30 days late within 2 years (some exceptions may apply);
- Outstanding collections w/ no payment plan or irregular payments, or paid in full < 6 months unless reg. payments had been made prev.



## Indicator vs. Disqualifier

- **Red Flag Indicator**— little or no history on report; adverse credit
- **Ask/Evaluate:**
  - **What was the reason/why did it happen? And is that resolved?**
  - **What was done to correct it?**
- **Delinquent on a Federal debt** (the RHS Administrator may grant an exception if payment agreement in place and in best Interest of the government)
- **Outstanding judgment obtained by the United States in Federal Court** (statutory – no exceptions)



32



## Insufficient Credit

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- If lack of credit
  - Less than 2 scores
  - No score
- Then obtain
  - Verification of rent/mortgage (must obtain if score is below 640)
  - Nontraditional credit

Nontraditional credit cannot outweigh adverse credit



## Nontraditional Credit

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- Obtained if applicant
  - Has less than two scores
  - Does not use traditional credit
- Credit history developed from
  - At least three sources (combination of traditional and non-traditional)
  - OR two sources if one is a verification of rent/mortgage
- May not be used to offset derogatory credit references found in the traditional credit report



## Nontraditional Credit Sources

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### 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)



## Insufficient Credit Scenario

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Paul has 1 acceptable tradeline and a score of 580.

His landlord reference and cell phone bill indicate 24 months paid as agreed.

Is this information adequate?  
Why or why not?

What else do you need?

How would you handle this differently if Paul only had the tradeline and the landlord reference?



## Credit Exercise 1- The Riveras

Applicant	Credit Score	# Tradelines	Credit Issues
Marcos Rivera	680	4	\$500 unpaid collection; no significant delinquencies
Janine Rivera	580	1	Paid as agreed; no significant delinquencies

Do the applicants have acceptable credit? Why or why not?

What is needed for Marcos?

What is needed for Janine?



## Credit Exercise 2 – Bill Fry

### Credit Score

639

### Tradeline Details

- Mastercard – paid as agreed for 15 months
- Nordstrom installment account open 18 months; paid as agreed
- Closed car loan paid as agreed
- 1 unpaid collection of \$50

Does Bill have acceptable credit? Why or why not?

What else is needed?

If Bill pays off the collection will that make his credit acceptable?



# PN 532 Chapters 3 and 4 changes

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December 12, 2019



## General changes

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- Prequalification's: Single Family Eligibility Assessment tool
- Minimum Square Footage not <400
- Updated Attachment 3-J
- Remove IRS Form 4506-T, Request for Transcript of Tax Return
- Do Not Pay (DNP) portal checks on all applicants





## Full-time Student Earned Income

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- “Earned Income” from adult full-time students (who are not the borrower, co-borrower or spouse), is counted as annual income
- That section used to say “income” change is to “earned” income
- “Unearned Income” is not counted



## Counting full-time student income

- Jim is a full-time student with a part-time job. He earns \$5,000 annually. Count the first \$480 of earned income.
- Mary is a full-time student who receives \$3,000/year in child support and \$5,000 per year from a part-time job. Count \$3,480 in income for Mary (\$3,000 of unearned income and the first \$480 of earned income).
- Stan is a full-time student. He receives disability assistance of \$24,000 per year. Count \$24,000 in unearned income.



## Calculating Student Loan TD payments

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- Deferred -
  - The higher amount of the monthly payment shown on the credit report, OR one-half percent (.05%) of loan balance(s)
- In Repayment, may use actual payment if meet all 4 criteria –
  - Payment verified by Lender
  - Credit score 640+
  - No indicators of Significant Delinquency
  - Payment shock 100% or less



## Calculating Student Loans Example

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Credit report lists student loan payment of \$0 with a balance of \$15,000

- Deferred TD Payment
  - .05% of \$15,000 = \$75
- Repayment status payment and meets prior 4 criteria
- Payment when in repayment and does not meet the 4 criteria



## Area Loan Limits Updated 1/31/2020

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### **4-A Worksheet** Updated:

- Removed “Assets Disposed of For Less than Fair Market Value”
- Revised the annual income calculations for adult full-time students to only count the first \$480 of earned income and include all unearned income
- Added account number to the top of each tab and each page within the tabs
- Updated the 1944-61, Credit History Worksheet tab to reflect the revised version of the form



## SIGN UP for GovDelivery!

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Single Family Housing Direct Loan Division  
program updates

[https://public.govdelivery.com/accounts/USDARD/  
subscriber/new?qsp=USDARD\\_25](https://public.govdelivery.com/accounts/USDARD/subscriber/new?qsp=USDARD_25)

Enter your email, select the “SFH Direct  
Loan and Grant Programs” (and any other  
programs of interest), and then “Submit”



***Coming Soon:***

## **Self-Help 502 Guidebook**



## Questions or areas of concern

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