



2025 Self-Help National Conference
Section 502 Loan Packaging
5 Most Common Challenges

March 2025

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Handouts

Procedural Notices
Final Rule
Temporary Authorizations
Special Procedural Notices
Unnumbered Letters



4

The Final Rule

June 21, 2019



5

Borrower Assets Updated with Final Rule

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





Credit



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

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

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

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



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")



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.

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

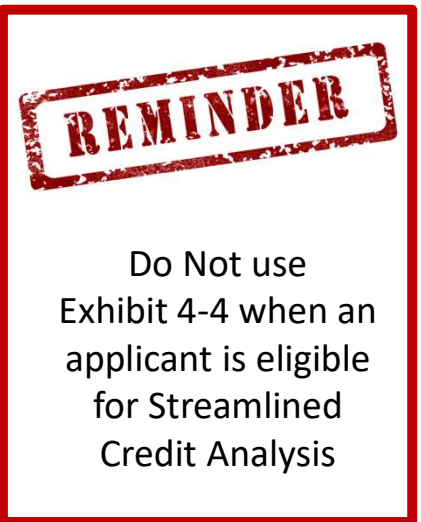
Credit Scores and Acceptability

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



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

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

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

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**

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.

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)

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)

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 improved repayment ability.



Only use Exhibit 4-4
when applicants are
not eligible for
Streamlined Credit
Analysis

RD May Consider Credit Exceptions

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

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.

ASSETS

2



Assets can affect an applicant in 2 ways:

Down Payment: Applicants may be required to use assets to make a down payment

Income: many types of assets generate income that must be included as annual income

Asset Documentation

- Obtain complete copies of bank/brokerage statements for the past two months (if reported quarterly or annually, obtain one statement)
- Packagers assist with documentation/narrative:
 - Confirm the applicant has adequate funds for closing
 - Obtain an explanation for
 - large or recurring deposits
 - increases in the account balance

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

Nonretirement Assets

Cash values in excess of these limits are used toward the purchase of the property:

Elderly Household - \$20,000

Nonelderly Household - \$15,000

Excess Nonretirement Assets may be used to

- Make a down payment
- Pay closing costs
- Pay architectural, engineering, inspection, & testing fees (for new construction/ repairs)
- Establish the RD initial escrow account
- Reduce non-housing debts
- Contribute to a retirement asset
- Make purchases which are not considered an asset (see Exhibit 4-3)

Income from Assets

Annual Income

The current assets of all applicants/co-applicants as well as applicable net family assets, are considered.

Repayment Income

Only the assets of the applicants/co-applicants are considered.

The actual income derived from the assets, which are determined stable and dependable, are used.

NON-RETIREMENT Assets

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graph TD; A[NON-RETIREMENT Assets] --> B[Downpayment]; A --> C[Annual Income]; A --> D[Repayment Income];
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Downpayment

Elderly – over \$20,000

Non-elderly – over \$15,000

Annual Income

All members (both note signers and all household members) considered

Actual income received from current assets

Repayment Income

Only Note Signers

Use actual income which is stable and dependable

Disposal of Assets

Disposal of business or household assets for less than fair
market value in the past (two-years)

=

No longer need to consider assets that have been
disposed of in the past

Based on Final Rule 6/21/2019, became effective July 22, 2019

Verifications

3



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

What Do I Use to Verify?

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

3rd 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

Verification Requirements

Paragraph 4.3 Sources of Income

Verification Requirements and Procedures	
Type of Income or Verification Source	(If Preferred Source of Verification cannot be obtained without cost, Acceptable Alternative may be used.)
For SELF-Employed PERSONS HB-1-3550 Paragraph 4.3 Sources of Income Income & Expenses Statement Preferred Source	INCOME Type of Income or Verification Source WAGES or SALARY Paycheck Stubs or Payroll Earnings Statements for not less than four (4) consecutive weeks Preferred Source
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: Document in the running record the date of contact and list: The employer's name/address/phone number/contact person and title; the employee's name,	

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



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.

Use Handbook Letters 16A/B!



RCAC
www.rcac.org



Student Loans

Establishing Total Debt Student Loan Payments



- **If Deferred or in Forbearance – the higher of:**
 - Monthly payment as shown on TMCR,
 - OR
 - .50% of the loan balance(s)
- **In Repayment – actual payment if 4 criteria are met:**
 1. Loan is in repayment status
 2. Credit score 640 or higher
 3. No indicators of Significant Delinquency
 4. Payment shock of 100% or less

Calculating Student Loans

Credit report lists student loan payment of \$0 /balance of \$15,000 and credit score 645

$$.50\% \text{ of } \$15,000 = \$75$$



Miscellaneous Challenges

Medical Debt – **NOT** Included in Total Debt



- Medical debt is no longer included in Total Debt Ratio
- BUT, it is evaluated in credit

Procedural Notice – May 9, 2022

Grossing Up

With the exception of SNAP benefits, **all non-taxable income will be grossed up to 120%** for Repayment Income only

Examples include: Social Security, Child Support, Section 8, etc.



Remember: only stable and dependable income is included in repayment income.

Grossing Up Explained

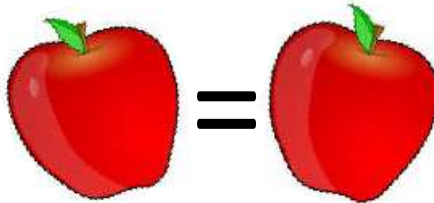


Applicant A:
Takes home \$20,000
per year (makes
\$24,000)



Applicant B:
Takes home \$20,000 per
year in disability income
(not taxed)

Applicant B grossed up: $\$20,000 \times 1.2 = \$24,000$



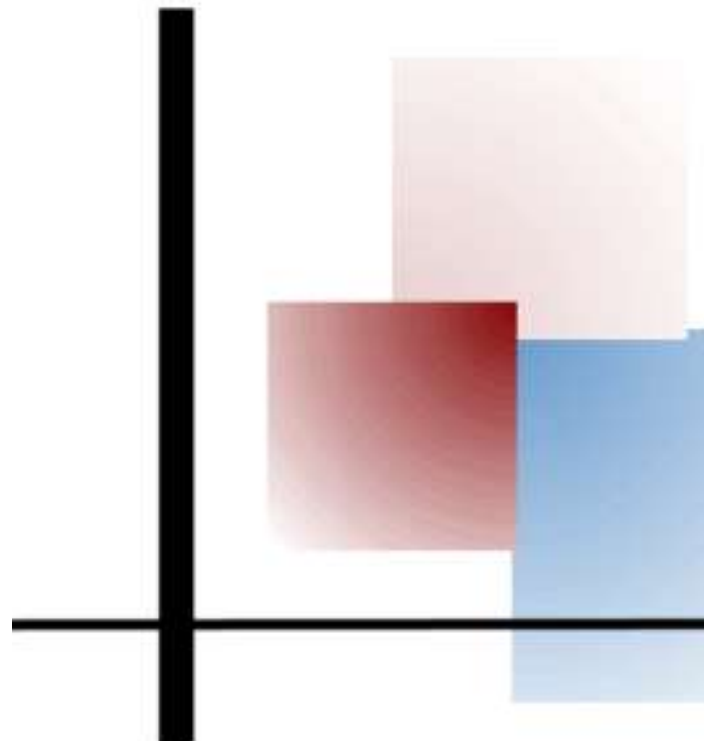
Funding and Delays

What can we do?

- Package well
- Practice patience
- Recertifications are inevitable
- Change is inevitable
- Be flexible
- We're all in this together

SELF-HELP 502 GUIDEBOOK

*PROVIDED BY REGIONAL T&MA
CONTRACTORS,
APPROVED BY RD NATIONAL
SECTION 523 MUTUAL SELF-HELP PROGRAM*





Questions?