

CHAPTER 4: BORROWER ELIGIBILITY

4.1 OVERVIEW

Ensuring that all applicants served are eligible and receive the correct amount of assistance is a significant responsibility of Loan Originators and Loan Approval Officials. A borrower must be income-eligible, demonstrate a credit history that indicates ability and willingness to repay a loan, and meet a variety of other program requirements. This chapter provides guidance for each of these areas.

- **Section 1: Evaluating Borrower Income** provides instructions for calculating and verifying annual, adjusted, and repayment income.
- **Section 2: Evaluating Borrower Assets** discusses Agency requirements for cash contributions to the purchase and methods for computing income from assets.
- **Section 3: Credit History** identifies indicators of acceptable and unacceptable credit and provides instructions for reviewing an applicant's credit history.
- **Section 4: Other Eligibility Requirements** addresses a variety of other requirements applicants must meet to be eligible for the program.
- **Section 5: Processing the Certificate of Eligibility** provides policies and procedures for processing Form FD 1944-59, Certificate of Eligibility.

SECTION 1: EVALUATING BORROWER INCOME

4.2 OVERVIEW [7 CFR 3550.53(a) and (g), 7 CFR 3550.54]

Loan Originators use income information to: (1) help determine whether an applicant is eligible for a loan; (2) calculate the applicant's ability to repay a loan; and (3) determine the amount of the loan and the amount of payment subsidy the household can obtain. When reviewing an applicant's repayment income, the Loan Originator must determine whether the income is stable and dependable. This will typically be accomplished by reviewing information provided in the application, paystubs, tax returns, and oral verifications. The Loan Originator will generally need to look at two years proof of history to determine the dependability of the income. In addition, the Loan Originator must determine that there is a reasonable expectation that the income will continue. This section provides guidance for verifying and calculating income for each of these purposes.

A. Key Concepts for Income Determinations

1. Income Definitions

Three income definitions are used. Whenever income determinations are made, it is essential that the Loan Originator use the correct income definition and consider income from the appropriate household members. To determine whether the applicant will be able to repay a loan, the Loan Originator must use **repayment income**. To determine whether an applicant is income-eligible to receive a program loan or payment subsidies, the Loan Originator must use **adjusted income**. Adjusted income is calculated in 2 steps. First, the **annual income** of all household members is calculated. Then, certain household deductions for which the family may qualify are subtracted from annual income to compute adjusted income.

- **Annual Income** is the amount of income that is used to determine an applicant's eligibility for assistance. Annual income is defined as all amounts, monetary or not that are not specifically excluded by regulations, that go to, or are received on behalf of, the applicant/borrower, co-applicant/co-borrower, or any other household member (even if the household member is temporarily absent).
- **Adjusted Income** is used to determine whether a household is income eligible for payment assistance. It is based on annual income and provides for deductions to account for varying household circumstances and expenses.
- **Repayment Income** is used to determine whether an applicant has the ability to make monthly loan payments. It is based only on the income attributable to parties to the note and includes some income sources excluded for the purpose of adjusted income. Repayment Income is used during servicing **only** to determine if a borrower is eligible for a Moratorium or Reamortization as described in Paragraph 5.5 of HB-2-3550.

2. Whose Income To Count

For repayment income, the Loan Originator must consider only the income of household members who will be parties to the note. For adjusted income, the income of all household members must be considered. For both types, live-in aides, foster children, and foster adults living in the household are not considered household members.

Paragraph 4.2 Overview [7 CFR 3550.53(a) and (g), 7 CFR 3550.54]

An individual permanently confined to a nursing home or hospital may not be the applicant or co-applicant but may continue as a family member at the family’s discretion. The family has a choice with regard to how the permanently confined individual’s income will be counted. **The family may elect either of the following:**

- **Include** the individual’s **income and receive allowable deductions** related to the medical care of the permanently confined individual; or
- **Exclude** the individual’s **income and not receive allowable deductions** based on the medical care of the permanently confined individual.

Exhibit 4-1 is a table which lists whose income is to be counted.

Exhibit 4-1		
INCOME TO BE COUNTED		
Members	Employment Income	Other Income (including income from assets)
Applicant, Co-Applicant/Borrower	Yes	Yes
Spouse	Yes	Yes
Other Adult	Yes	Yes
Permanently Confined Family Member	Optional*	Optional*
Dependents (children under 18)	No	Yes
Full-time Student over 18	See Note	Yes
Non-Members		
Foster Child	No	No
Foster Adult	No	No
Live-in Aide	No	No
NOTE: The income of a full-time student 18 years old or older who is not the Applicant, Co-Applicant/Borrower, or Spouse is excluded after it exceeds \$480.		
*Reminder: The family chooses to include or exclude the permanently confined individual’s income.		

3. Income Limits

Some program rules differ according to the income of the applicant. Three different income limits are used for the Section 502 and 504 programs. The National Office provides the income limits and updates the limits whenever they are revised. The income limits can be found online at: <https://www.rd.usda.gov/files/RD-DirectLimitMap.pdf>.

Adjusted income should be compared to the income limit to determine the category in which each household falls. Income limits are as follows:

- The very low-income limit is an adjusted income limit developed in consultation with HUD;
- The low-income limit is an adjusted income limit developed in consultation with HUD; and
- The moderate-income limit is an adjusted income that does not exceed the moderate-income limit for the guaranteed single family housing loan program.

4. Applicant Certification and Verification Requirements

Each applicant must provide the income, expense, and household information needed to enable the Agency to make income determinations. Most of this information is provided on the application, but some additional follow-up with the applicant may be required, as described in Paragraph 3.8. The applicant should be requested to provide two years of history for a reasonable determination of income. The documentation required will vary with the source of income. In most cases, the Loan Originator will compare information provided on the application with the tax returns, W-2s, and other preferred verification sources to evaluate the two-year history of income. For example, the need to use Form RD 1910-5, Request for Verification of Employment, to document previous employment (Part III of the form) should be rare and should be limited to cases where the preferred verification sources are insufficient to document the applicant's employment history. In some instances, less than two years of history may be acceptable when the applicant provides, and the Loan Originator documents sound justification. For example, an applicant whose compensation changed from hourly to salary income with the same employer in a similar job/position may be considered to have dependable and stable income. While not typical, more than two years of history (i.e. obtaining an additional year's tax return) may be needed. For example, when an applicant's income varies significantly from year to year, the Loan Originator may need to review a longer work/self-employment history to establish an average income. This can typically be accomplished by obtaining an additional year's tax return with accompanying attachments.

In the limited situations when verification from a third party is requested, a copy of Form RD 3550-1, Authorization to Release Information, **must** accompany the request. Authorization from each adult household member on the Form RD 3550-1 permits the Loan Originator to ask for, and verification sources to release, the needed information. Application processing should not be delayed if a third party does not respond to a request for information. In these instances, the Loan Originator must seek to obtain the most relevant information which can be obtained from the applicant to verify the information. This may include, but is not limited to, evidence of deposits/withdrawals, copies of cancelled checks, etc.

The verification and certification formats that are provided in Appendix 2 are not official Agency forms. They are samples that may be adapted as needed for particular circumstances. In some instances the same format can be used whether a third party is providing the verification or the applicant is making a certification.

5. Stable and Dependable Income

The Agency has no minimum history requirement for employment in a particular position. The key concept is whether the applicant has a history of receiving stable income and a reasonable expectation that the income will continue. The Loan Originator must carefully assess the applicant's income to establish whether it can reasonably be expected to continue for the next two years (e.g. child support and contract income). The applicant must provide an explanation letter for employment gaps in excess of 30 days unless their income history is clearly seasonal in nature. The Loan Originator must review the employment gap explanation to make a determination on the applicant's ability to receive stable and dependable income. If the Loan Originator determines that an applicant's income source is unstable and undependable, the income must be excluded from repayment but included in annual income.

- **Wage and Salary Income.** Income from employment may include a base hourly wage or salary, overtime pay, commissions, fees, tips, bonuses, housing allowances, and other compensation for personal services of all adult members of the household. When the applicant demonstrates a two-year history of stable or rising income, current income from each of these sources may be used unless there is evidence to the contrary (such as the current employer's oral confirmation that such income is NOT likely to continue).

Example – Stable Income

Steven Green has been working for the last 6 months for LMN Contractors as a Construction Foreman. Before that, he worked for PDQ Building Supply for 8 months as a Shift Supervisor. There is a 6-week gap in his employment history that he explains as being the result of a lay-off after a large construction project (where he was employed for 15 months as a construction worker) was completed. Mr. Green's income is considered stable because the reasons for his job changes were related to changes in job opportunities. Even though his job changed several times, his line of work was similar.

Example – Dependable Income

Mary Brown receives SSI income for her dependent child who is 17 years of age. The SSI income should not be counted as repayment income because it clearly cannot be expected to continue. It would be counted as annual income since it is current verified income.

- **Self-employment Income.** Income based on a two-year history of self-employment, in the same line of work, is an acceptable indicator of stable and dependable income.

Example – Self-Employment, Commission and Other Irregular Income

Julie McAhren sells beauty products door-to-door on commission. She makes most of her money in the months prior to Christmas but has some income throughout the year. She has no formal records of her income other than a copy of the IRS Form 1040 she files each year. With no other information available, use the income reflected on Julie's copy of her Form 1040 as her annual income and make the income adjustments according to Attachment 4-C.

Betty House sells real estate on commission. She makes most of her money during the summer months. She has no formal records of her income other than a copy of a 1099 and the Tax Return (Form 1040) she files each year. The gross earning on the 1099 should not be used as her annual income. Use the income and other information on the tax return in conjunction with Attachment 4-C to calculate the self-employment income.

- **Other Sources of Income.** Income from public assistance, child support, alimony, or retirement that is consistently received is considered stable when such payments are based on a law, written agreement or court decree, the amount and regularity of the payments, the eligibility criteria for the payments, such as the age of the child (when applicable), and the availability of means to compel payments.

Examples – Other Sources of Income

Janis Phillips is not always well enough to work full-time. When she is well, she works as a typist with a temporary agency. Last year was a good year and she worked a total of nearly six months. This year, however, she has more medical problems and does not know when or how much she will be able to work. Because she is not working at the time, it will be best to exclude her employment income and remind her that she must report the date when she resumes work.

Sam Shah receives social security disability. He reports that he works as a handyman periodically. He cannot remember when or how often he worked last year; he says it was a couple of times. Sam’s earnings appear to fit into the category of nonrecurring, sporadic income that is not included in annual income. Tell Sam his earnings are not being included in his annual income this year, but he must report any regular work or steady jobs he takes. Jane Smith receives child support payments for her sixteen and a half-year old son. She has a copy of the court appointed child support agreement, which states that the child support will end when son turns 18, and a computer print-out of a 12-month child support payment history. The child support income should be counted in the annual income but excluded from the repayment income calculation because it is not expected to continue for the next two years.

- **Irregular Income.** Irregular income from employment are earnings that may vary on a weekly, monthly, or seasonal basis depending on the type of income. This income is not guaranteed, nor received on a regular basis. Irregular income includes overtime, bonus, second job, part-time, and seasonal income. Irregular income may be considered stable when the applicant has worked in the same line of work (not necessarily the same employer) for at least two years. Loan Originators may accept less than a two-year history (but no less than 12-months) of irregular income if there is a strong likelihood that the applicant will continue to receive that income. Loan Originators must establish the income trend and calculate a monthly average for the irregular income. When the applicant receives seasonal unemployment compensation, it must be clearly associated with seasonal layoffs expected to recur and be reported on the applicant’s federal income tax returns. Commission-based pay is also considered irregular income. Additional guidance on calculating commission income is provided in Attachment 4-C.

Example – Irregular Income

Ross Bosser is a roofer who works from April through September. He does not work in rain or windstorms. His employer orally confirmed the total number of regular and overtime hours Ross worked during the past two years. To calculate Ross’s anticipated income, use the average number of regular hours over the past two years times his current regular pay rate, and the average overtime hours times his current overtime rate.

- **Less Than Two Years of History.** In some cases, a history of less than two years is acceptable. The determination requires a careful analysis by the Loan Originator. This may include an applicant who is either new to the work force, is on a probationary period, or has returned to the work force after an extended absence. The Loan Originator may consider reasonable allowances for less than a two-year history under the following circumstances:
 - The applicant has recently changed jobs but remains in the same line of work.
 - The applicant frequently changes jobs but demonstrates income continuity.
 - The applicant is a recent graduate, as evidenced by college transcripts, or a recent member of the military, as evidenced by discharge papers, entering the civilian workforce.
 - The applicant has recently re-entered the workforce after an absence due to an extended medical illness, to care for a family member or minor child, or other similar circumstances.

Example – Less Than Two Years History

For the last few years, Ellen Dixon has been a homemaker with no outside employment. Now that her children are old enough, she has taken a job as a teacher for which she has the necessary education and certifications. She is currently half way through her 6-month probation period and her employer orally confirmed that she is a permanent employee. Ms. Dixon's income can be considered stable and dependable

B. Using UniFi and the Income Worksheet to Compute Income

All 3 types of income are calculated in UniFi using data entered by the Loan Originator. **Attachment 4-A**, a Worksheet for Computing Income calculator that helps Loan Originators organize applicant information for data entry and provides instructions to calculate each type of income, **will be completed and placed in the applicant's file.**

4.3 SOURCES OF INCOME

Loan Originators will consider sources of income to determine annual and repayment income. This section provides guidance on income that will and/or will not be counted.

A. Income Considered for Annual and Repayment Income

For annual income, consider income from the following sources that are attributable to any household member. For repayment income, consider income from the following sources that are: attributable to parties to the note and represent a source of dependable income.

Paragraph 4.3 Sources Of Income

1. The gross amount, before any payroll deductions, of base wages and salaries, overtime pay, commissions, fees, tips, bonuses, housing allowances, and other compensation for personal services of all adult members of the household. If a cost of living allowance or a proposed increase in income has been estimated to take place on or before loan approval, loan closing, or the effective date of the payment assistance agreement, it will be included as income. For **annual income**, count only the first \$480 of earned income from adult full-time students who are not the borrower, co-borrower, or spouse.

Employer paid and provided fringe benefits are not included in annual income regardless of whether the benefits are reported on the employee wage statement. Fringe benefits may include, but are not limited to:

- Child care/pet-sitting,
- Medical/life insurance,
- Car/mileage allowance,
- Stock options,
- Discounts for merchandise,
- Sport/concert/movie tickets or entertainment,
- Charity donations in employee name,
- Any reimbursement of actual work expenses.

Housing allowances may include, but are not limited to:

- **Cash or non-cash contributions paid on behalf of the applicant/borrower by persons not living in the house,**
- Allowances for members of the Armed Forces,
- Allowances for members of the Clergy,
- Allowances paid by employer.

2. The net income from the operation of a farm, business, or profession. The following provisions apply:
 - Expenditures for business or farm expansion, capital improvements, or payments of principal on capital indebtedness shall not be used as deductions in determining income. A deduction is allowed in the manner prescribed by Internal Revenue Service (IRS) regulations only for interest paid in amortizing capital indebtedness.
 - Farm and non-farm business losses are considered "0" in determining annual income. A negative amount must **not** be used to offset other family income.

- A deduction, based on straight line depreciation, is allowed in the manner prescribed by IRS regulations for the exhaustion, wear and tear, and obsolescence of depreciable property used in the operation of a farm, business, or profession by a member of the household. The deduction must be based on an itemized schedule showing the amount of straight-line depreciation.
 - Any withdrawal of cash or assets from the operation of a farm, business, or profession, or salaries or other amounts distributed to family members from the farm, business, or profession, will be included in income, except to the extent the withdrawal is for reimbursement of cash or assets invested in the operation by a member of the household.
 - A deduction is allowed for verified business expenses, such as lodging, meals, and fuel, for business trips made by salaried employees, such as long-distance truck drivers, who must meet these expenses without reimbursement.
 - For home-based operations such as child care, product sales, and the production of crafts, housing related expenses for the property being financed such as mortgage interest, real estate taxes, and insurance, which may be claimed as business expense deductions for income tax purposes, will not be deducted from annual income.
3. Interest, dividends, and other net income of any kind from real or personal property, including:
- The share received by adult members of the household from income distributed from a trust fund.
 - Any withdrawal of cash or assets from an investment except to the extent the withdrawal is reimbursement of cash or assets invested by a member of the household.
4. The full amount of periodic payments received from Social Security (including Social Security received by adults on behalf of minors or by minors intended for their own support, or by an applicant who is a representative payee for an adult household member who will reside in the property), annuities, insurance policies, retirement funds, pensions, disability or death benefits, and other similar types of periodic receipts. However, deferred periodic amounts from supplemental income and social security benefits that are received in a lump sum amount or in prospective monthly amounts are not counted.

Paragraph 4.3 Sources of Income

Example – Adjustment for Prior Overpayment of Benefits

Dan Steven’s social security payment of \$250 per month is being reduced by \$25 per month for a period of six months to make up for a prior overpayment. Count Dan’s social security income as \$225 per month for the next six months and as \$250 per month for the remaining six months.

5. Payments in lieu of earnings, such as unemployment and disability compensation, worker’s compensation, and severance pay. Unemployment income requires a two year documentation of receipt and reasonable assurance of its continuance. This may be appropriate for individuals employed on a seasonal basis (e.g., farm laborers, construction workers, etc.).
6. Public assistance except as indicated in Paragraphs 4.3 C. and D.
7. Periodic allowances, such as:
 - Alimony and child support received by the household; or
 - Recurring monetary gifts or contributions from an organization or person who is not a member of the household.

Examples – Regular Cash Contributions

The father of a young single parent pays her monthly utility bills. On average, he provides \$100 each month. The \$100 per month must be included in the family’s annual income.

The daughter of an elderly applicant gives her mother \$175 each month to assist with her living expenses. The daughter plans to continue subsidizing her mother’s expenses. The \$175 per month must be included in the annual income.

8. All regular pay, special pay (except for persons exposed to hostile fire), and allowances of a member of the armed forces who is the applicant or spouse, whether or not that family member lives in the home.

B. Additional Income Considerations for Repayment Income

Consider these additional sources of income that are attributable to parties to the note and represent a source of dependable income for repayment income only.

1. Housing assistance payment (HAP). (HUD's Housing Choice Voucher– Homeownership Program sometimes referred to as Section 8 for Homeownership.) See Chapter 8.9 on how HAP payments should be handled. For additional information on the Housing Choice Voucher – Homeownership Program, visit http://portal.hud.gov/hudportal/HUD?src=/program_offices/public_indian_housing/programs/hcv/homeownership
2. Adoption assistance payments in excess of \$480 per adopted child.
3. Reparation payments paid by a foreign government arising out of the Holocaust. If any applicant for an Agency loan was deemed ineligible because the applicant's income exceeded the low income limit because of the applicant's Nazi persecution benefits, the Agency Loan Approval Official should notify the applicant to reapply for a loan.
4. Certain income tax credits regularly received via the applicant's employer.
5. The full amount of student financial assistance received by household members or paid directly to the educational institution who are parties to the note. Financial assistance includes grants, educational entitlements, work study programs, and financial aid packages. It does not include tuition, fees, student loans, books, equipment, materials and transportation. Any amount provided for living expenses may be counted as **repayment income**.
6. Amounts received by the family in the form of refunds or rebates under State or local law for property taxes paid on the dwelling unit.
7. Any other revenue which a Federal statute exempts will be considered **repayment income**. This includes:
 - The imminent danger duty pay to a service person applicant or spouse away from home and exposed to hostile fire.
 - Payments to volunteers under the Domestic Volunteer Service Act of 1973, including, but not limited to:

Paragraph 4.3 Sources of Income

- ◇ National Volunteer Antipoverty Programs which include Volunteers In Service To America (VISTA), Peace Corps, Service Learning Programs, and Special Volunteer Programs.
 - ◇ National Older American Volunteer Programs for persons age 60 and over which include Retired Senior Volunteer Programs, Foster Grandparent Program, Older American Community Services Program, and National Volunteer Programs to Assist Small Business and Promote Volunteer Service to Persons with Business Experience, Service Corps of Retired Executives (SCORE), and Active Corps of Executives (ACE).
 - Payments received after January 1, 1989, from the Agent Orange Settlement Fund or any other fund established pursuant to the settlement in the "In Re Agent Orange" product liability litigations, M.D.L. No. 381 (E.D.N.Y.).
 - Payments received under the "Alaska Native Claims Settlement Act" or the "Maine Indian Claims Settlement Act."
 - Income derived from certain sub-marginal land of the United States that is held in trust for certain American Indian tribes.
 - Payments or allowances made under the Department of Health and Human Services Low-Income Home Energy Assistance Program.
 - Payments received from the Job Training Partnership Act.
 - Income derived from the disposition of funds of the Grand River Band of Ottawa Indians.
 - The first \$2,000 of per capita shares received from judgment funds awarded by the Indian Claims Commission or the Court of Claims, or from funds held in trust for an American Indian tribe by the Secretary of Interior.
 - Payments received from programs funded under Title V of the Older Americans Act of 1965.
 - Any other income which is exempted under Federal statute.
8. Amounts paid by a State Agency to a family with a developmentally disabled family member living at home to offset the cost of services and equipment needed to keep the developmentally disabled family member in the home.

9. The special pay to a family member serving in the Armed Forces who is exposed to hostile fire.
10. Income received from the Supplemental Nutrition Assistance Program (SNAP) may be considered to calculate repayment income in an amount **not to exceed 20 percent of the total repayment income** (“not to exceed” amount). The following provisions apply:
 - Only the SNAP benefits attributable to the note signers can be considered for repayment income.
 - Only **the lesser** of the “not to exceed” amount or the actual SNAP benefits can be included in the applicant’s repayment income.

Example – Income from SNAP Benefits

Eloise Thompson’s monthly income from employment is \$800. She also receives \$200 per month in child support payments for her 6-year-old daughter and \$200 per month in SNAP benefits. To consider the SNAP benefits in the repayment income calculation, the “not to exceed” amount must be calculated.

Monthly repayment income excluding SNAP benefits ($\$800 + \200): \$1,000

To calculate Income from SNAP benefits:

1. Equalize the repayment income ($\$1,000 / .80$): \$1,250
2. Calculate the “not to exceed” amount ($\$1,250 - \$1,000$): \$ 250
3. Compare to actual SNAP benefits received: \$ 200

The **lesser** of the “not to exceed” amount or the actual SNAP benefits: \$ 200

Monthly repayment income after SNAP consideration: \$1,200

Paragraph 4.3 Sources of Income

C. Income Never Considered for Annual and Repayment Income

The following sources are never considered when calculating annual income or repayment income:

1. Income from the employment of persons under 18 years of age, except parties to the note and their spouses.
2. Special-Purpose Payments. These are payments made to the applicant's household that would be discontinued if not spent for a specific purpose. Payments which are intended to defray specific expenses of an unusual nature and which are expended solely for those expenses should not be considered as income. Examples include, but are not necessarily limited to, the following:
 - a. Medical Expenses. Funds provided by a charitable organization to defray medical expenses, to the extent to which they are actually spent to meet those expenses.
 - b. Foster Children/Adults. Payments for the care of foster children or adults.
NOTE: Foster children are not considered members of the family. Therefore, no adjustments to income are to be made because of their presence.
3. Temporary, nonrecurring, or sporadic income (including gifts).
4. Lump-sum additions to family assets such as inheritances, capital gains, insurance payments included under health, accident, hazard, or worker's compensation policies, and settlements for personal or property losses.
5. Amounts that are granted specifically for, or in reimbursement of, the cost of medical expenses for any family member.
6. Payments received on reverse amortization mortgages (these payments are considered draw-down on the applicant's assets).

7. Income received by foster children or foster adults who live in the household, or live-in aides, regardless of whether the live-in aide is paid by the family or a social services program (family members cannot be considered live-in aides unless they are being paid by a health agency and have an address, other than a post office box, elsewhere).
8. Amounts received by any family member participating in programs under the Workforce Investment Act of 1998 (29 U.S.C. 2931).
 - Amounts received by a person with a disability that are disregarded for a limited time for purposes of Supplemental Security Income eligibility and benefits because they are set aside for use under a Plan to Attain Self-Sufficiency (PASS).
 - Amounts received by a participant in other publicly assisted programs which are specifically for or in reimbursement of out-of-pocket expenses incurred (special equipment, clothing, transportation, child care, etc.) and which are made solely to allow participation in a specific program.
9. Earned income tax credits.
10. Incremental earnings and benefits resulting to any family members from participation in qualifying State or local employment training programs (including training programs not affiliated with a local government) and training of a family member as resident management staff. Amounts excluded by this provision must be received under employment training programs with clearly defined goals and objectives, and are excluded only for the period during which the family participates in the employment training program.
11. Allowances, earnings and payments to AmeriCorps participants under the National and Community Service Act of 1990 (42 E.S.C. 12637{d}).

D. Additional Income Never Considered for Annual Income

In addition, the following sources are never considered when calculating annual income:

1. Payments received for the care of foster children, or foster adults (usually individuals with disabilities who are unable to live alone).
2. Deferred periodic payments of supplemental security income and Social Security benefits that are received in a lump sum amount or in prospective monthly amounts.
3. Any amount of crime victim compensation received through crime victim assistance (or payment or reimbursement of the cost of such assistance) because of the commission of a crime against the applicant under the Victims of Crime Act (42 U.S.C. 10602).
4. Any allowance paid under 38 U.S.C. 1805 to a child suffering from spina bifida who is the child of a Vietnam veteran.
5. Payments by the Indian Claims Commission to the Confederated Tribes and Bands of Yakima Indian Nation or the Apache Tribe of Mescalero Reservation (Pub.L. 95-433).
6. Housing assistance payment (HAP) (HUD'S Housing Choice Voucher Homeownership Program, sometimes referred to as Section 8 for Homeownership). The HAP is not included in the household's annual income for the purpose of determining the income category in which the household falls or determining payment assistance.
7. Adoption assistance payments in excess of \$480 per adopted child.

Examples – Income Exclusions

- **The Value of Food Provided through the Meals on Wheels Program or Other Programs Providing Food for the Needy.** Shane Michaels received a hot lunch each day during the week in the community room and an evening meal in his apartment. One meal is provided through the Meals on Wheels program. A local church provided the other. The value of the meals he receives is not counted as income.
- **Groceries provided by persons not living in the household.** Melissa Bostic’s mother purchases and delivers groceries each week for Melissa and her two year old. The value of these groceries is not counted as income despite the fact that these are a regular contribution or gift.
- **Amounts Received Under WIC or the School Lunch Act.** Cody Britt’s two children receive a free breakfast and reduced priced lunches at school every day through the Special Supplemental Food Program for Women, Infants and Children (WIC). The value of this food is not counted as income.
- **Deferred periodic payments of social security benefits.** Andrew Ray received \$32,000 in deferred social security benefits following a lengthy eligibility dispute. This delayed payment of social security benefits is treated as an asset, not as income.
- **Income from training programs.** Jamey Hawkins is participating in a qualified state-supported employment training program every afternoon to learn improved computer skills. Each morning, she continues her regular job as a typist. The \$250 a week she receives as a part-time typist is included in annual income. The \$150 a week she receives for participation in the training program is excluded in annual income.
- **Student financial assistance.** Dylan Nessel won a scholarship from the local civic association. The association sends him a \$1,000 check each semester to help with tuition costs. These funds are excluded from annual income.

E. Verifying Sources and Amounts

The Loan Originator must verify income information provided by the applicant. Paragraph 3.15 describes the different types of verifications. Federal Income Tax Returns with supporting documentation are the preferred verification source for prior income/previous employment. These documents along with paystubs (supported by oral verification) and/or award letters are preferred when reviewing current income sources and projecting both annual and repayment income. Written verifications provided by third-party sources or documents prepared by third-party sources are required when the applicant is unable to provide sufficient recent, reliable and consistent documentation.

Paragraph 4.3 Sources of Income

Each applicant must sign Form RD 3550-1, Authorization to Release Information, at the time of application. Copies of this form must accompany any request for verification from third-party sources. Form SSA-3288, Consent for Release of Information, may also be used for Social Security verifications when the applicant is unable to provide a copy of an award letter. A complete copy of the last two filed and signed IRS Form 1040, U.S. Individual Income Tax Returns must be provided by the applicant. IRS Form W-2, Wage and Tax Statement, and/or IRS Form 1099-MISC, Miscellaneous Income, must be attached to the applicant's federal income tax return in order for it to be considered a complete return. For electronically filed tax returns, it is not necessary to require the applicant(s) to manually sign the return for application purposes if there is sufficient documentation the applicant has signed and filed the return electronically (e.g. use of Self-Select PIN for Free File Fillable Forms, Electronic Filing PIN, authorized E-File Provider, etc.).

The Agency will ask the applicant to directly request, obtain, and provide a copy of their tax return transcript for the previous two tax years (using IRS Form 4506-T, Request for Transcript of Tax Return) *if additional income validation is needed*. If there are inconsistencies between the income verifications (e.g. pay stubs, tax returns, etc.), or if the applicant was unable to furnish complete copies of their last two filed returns (e.g. a W-2 was missing), then the transcript should be requested. The transcript should also be requested if the income verifications appear suspicious (e.g. there is evidence of alteration).

Appendix 2 provides sample certification and verification formats for a number of purposes.

The following chart provides guidance on acceptable alternative sources of verifications of different types of income:

INCOME (If Preferred Source of Verification cannot be obtained without cost, Acceptable Alternative may be used.)	
Type of Income or Verification Source	Verification Requirements and Procedures
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:
AND Oral Verification as permitted in Paragraph 3.15 A.3. Preferred Source	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, date of employment, present position and probability of continued employment; the source of the phone number (applicant, realtor, yellow pages, website); and the name and title of the Rural Development employee that contacted the employer. Note: The oral verification is conducted with a current employer to confirm the applicant’s present employment and to verify the probability of continued employment only. Income information should not be discussed during an oral verification of employment.
Electronic Verification Acceptable Alternative (in lieu of paycheck stubs only)	It must clearly identify the applicant (or adult household member) as the employee by name and/or social security number, cover the most recent pay period as of the date the initial loan application is made, and show the gross earnings for the most recent 30-day pay period and year-to-date. <u>Obtain oral verification of employment only</u> if the applicant has worked for the employer for less than a year or the other types of verifications are inconsistent or suspicious.
Written Verification of Employment Acceptable Alternative	If paycheck stubs or earnings statements are inconsistent or not available, the Loan Originator must send Form RD 1910-5, Request for Verification of Employment, to each employer for verification.

Paragraph 4.3 Sources of Income

Type of Income or Verification Source	Verification Requirements and Procedures
For SELF-EMPLOYED PERSONS	
Income & Expense Statement Preferred Source	Self-employed applicants (or adult household members) must provide current documentation of income and expenses, which cannot be older than the previous fiscal year. The Loan Originator must compare the income and expense information provided by the applicant with the last two complete Federal Income Tax Returns (IRS Form 1040) along with Schedules C & F and/or other applicable schedules, and clarify any discrepancies. IRS Form W-2 must be attached to the applicant’s Federal Income Tax return in order for it to be considered a complete return when the applicant has wage income. (NOTE: Other sources of commercial software such as Turbo Tax are not acceptable alternatives.) Appendix 2 provides a sample format for recording business expenses.
SUPPLEMENTAL VERIFICATION	
Seasonal Employment Preferred Source	A household member who is a seasonal worker must provide the most recent Federal income Tax return, the prior year’s W-2s and/or prior year’s 1099-MISC statements.
Unemployment and Unemployment Benefits, Disability & Worker’s Compensation, Severance Pay (except lump-sum additions) Preferred Source	All applicants (or adult household members) must complete Form RD 3550-4, Employment and Asset Certification, which provides his/her current employment status and requires them to agree to inform the Agency immediately, in writing, if the employment status changes. If an applicant has recently become unemployed, the Loan Originator should contact the former employer to confirm that the applicant is no longer employed and that re-employment is not expected. Applicants (or adult household members) receiving <u>unemployment</u> benefits must provide the most recent award or benefit letter prepared and signed by the authorizing agency to verify the <u>non-employment</u> income. Appendix 2 provides a sample format for requesting information about unemployment benefits. It must clearly identify the adult household member as the employee by name and/or social security number and cover the most recent earnings as of the date the verification is submitted.

<p>Electronic Verification Acceptable Alternative</p>	<p>Electronic verification for that period, copy of checks, or bank statements, all showing gross earnings. All authorized deductions must be added back to checks or bank statements to reflect gross amount.</p>
<p>Mortgage Credit Certificates (MCC) Preferred Source for MCC Applicable IRS Form or Letter from Employer</p>	<p>An applicant receiving a MCC must file IRS Form W-4, Employee’s Withholding Allowance Certificate. This IRS form enables the applicant’s employer to include a portion of the applicant’s income tax credit in their regular paycheck. Income tax credits not advanced through the applicant’s employer on at least a monthly basis cannot be included in repayment income but may warrant consideration as a compensating factor.</p> <p>The documents must be the “most recent” and identify the applicant by name and/or social security number.</p> <p>Signed copies of the applicable IRS Form or a letter from the employer stating the applicant has executed and the employer has accepted the document.</p>
<p>Regular, Unearned Income (e.g., Social Security, SSI, Retirement Funds, Pensions, Annuities, Disability or Death Benefits) (except deferred periodic payments) Preferred Source Acceptable Alternative</p>	<p>The applicant (or adult household member) must provide a copy of the most recent award or benefit letter prepared and signed by the authorizing agency. If the date of the letter is not within the last 12 months, require the applicant to submit information updating the award, for example, a cost-of-living (COLA) payment notice, Social Security Benefits Statement, or a notice of change in benefits. Appendix 2 provides sample formats for requesting this information.</p> <p>The two most recent bank statements showing the amount of monthly benefits received and IRS Form 1099 for the previous year. Loan Originators must verify that the benefit shown on the bank statement reflects the gross amount of the benefit prior to deductions for items such as taxes, health benefits, insurance premiums, etc.</p>

Paragraph 4.3 Sources of Income

<p>Alimony or Child Support Payments Preferred Source</p> <p>Electronic Verification Acceptable Alternative</p>	<p>The applicant (or adult household member) must 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.</p> <p>The two most recent bank statements showing electronic deposit of the monthly alimony and/or child support received AND 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.</p>
<p>Divorce Decree Acceptable Alternative</p> <p>Cancelled Checks Acceptable Alternative</p>	<p>If (and only if) 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.</p> <p>If (and only if) 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.</p>
<p>Verification of Assets and Income from Assets and Investments Preferred Source</p>	<p>Form RD 3550-4, Employment and Asset Certification, will be used to confirm the level of the household’s combined net assets. Obtain the two most recent complete bank or brokerage statements showing the transaction history and the current balance. If account information is reported on a quarterly basis, obtain the most recent quarterly statement. To further document interest and dividend income the applicant must provide copy of Federal tax forms and schedules clearly identifying income from interest, dividends, and capital gains. For some assets such as mutual funds or 401(k) accounts, copies of year-end statements can provide information about annual income.</p>

	If the Loan Originator has reasons to question the accuracy of the applicant’s self-certification or bank statements, the Loan Originator sends Form RD 1944-62, Request for Verification of Deposit, to financial institutions to verify account balances.
Verification of Gifts Preferred Source	If funds needed for the purchase will be provided by <u>an organization</u> or another person <u>not living in the household</u> , the Loan Originator must send the donor Form RD 3550-2, Request for Verification of Gift/Gift Letter, to verify whether the gift must be repaid and whether the funds have already been transferred. Form RD 3550-2 is used to verify gifts that are non-recurring and intended for down payment or closing costs purposes only.
Verification of Recurring Gifts Preferred Source	For recurring gifts, if there is no history of the gift being received prior to application and the gift amount is needed to establish the applicant has repayment ability, the Loan Originator must determine and document that the gift is stable and dependable.
DEDUCTIONS	
Type of Expense or Verification Source	Verification Requirements and Procedures
Disability Assistance Expenses Preferred Source	To qualify for disability deductions, the applicant must describe the nature of the expense, provide documentation of the costs, and demonstrate that the expense enables a family member to work. If the household member receives a form of income because of a verified disability (such as social security disability or disability compensation), that may be used as a method to verify the disability. Otherwise, Form RD 1944-4, Certification of Disability or Handicap, should be used to have a physician or other medical professional verify the household member’s disability.
Medical Expenses Preferred Source	For elderly households only, allowable medical expenses may be deducted from annual income. Therefore, documentation of medical expenses is not generally required for non-elderly households. In such cases, these medical expenses must be verified as well. Appendix 2 provides a sample format for documenting medical expenses.
Childcare Expenses	Reasonable childcare expenses may be deducted from annual income. To qualify for the deduction, the applicant must: <ul style="list-style-type: none"> • Identify the children receiving child care and the family member who can work or go to school as a result of the care; • Demonstrate there is no adult household member available to care for the children; • Identify the child care provider, hours of care provided, and costs (e.g., letter on the child care provider’s letterhead or a copy of a signed child care contract); and • Identify the educational institution and provide documentation of enrollment (if appropriate). Appendix 2 provides a sample format for requesting childcare information.

Paragraph 4.3 Sources of Income

1. Timing

Documentation used to verify employment, income, assets, and deductions must be no more than 120 days old, or 180 days old for new construction by closing date. If any of the verification documents are older than allowed, the Loan Originator must update them before settlement. The age of certain documents, such as divorce decree and tax returns, do not necessarily affect the validity of the underwriting decision. These types of documents are exempt from the document age restriction unless there is evidence that the applicant's circumstances have changed thus warranting updated verifications.

2. Projecting Expected Income for the Next 12 Months

Once an income source is verified, the Loan Originator must project the expected income from this source for the next 12 months. This projection should be based on a comparison and analysis of the figures derived from using all applicable calculation methods. To establish earning trends and avoid miscalculating income (especially from seasonal income), the more methods used the better. However, some income sources will only lend themselves to one method. In some cases, there may be multiple types of income generated from one source (overtime, bonus, hourly); therefore the income calculation method used will depend on the type of income received, rather than the source of income. The four calculation methods are:

- Straight-based where the benefit or wage amount is converted to the annual equivalent.
- Average where the income as reported on the benefit statements or pay stubs for the last 30 days is averaged and then converted to the annual equivalent.
- Year-to-date (YTD) where the YTD gross earnings are divided by the YTD interval, which is the number of calendar days elapsed between January 1 of the current year and the last date covered by the most recent income verification, and then multiplied by 365. The earning activity during the YTD interval should be closely examined to determine the appropriateness of this method. Do not use this method if the earning activity during the YTD interval is insufficient to make an annual projection or is not reflective of the likely earning activity for the period outside the YTD interval (the time between the last date covered by the most recent income verification and December 31 of the current year).
- Historical where the income as reported on the previous year's tax return is used. Any declining income trend, especially for repayment income, must be carefully document in the underwriting analysis.

After the Loan Originator determines the suitable methods and performs the calculations, he/she must determine which figure is most representative of income likely to be received during the next 12 months. If the figures are disparate and one figure is not clearly the most representative, an average of the resulting figures may be used. Selecting the lowest figure without analysis is not acceptable. The selection must be carefully deliberated and may require additional verification.

Example - Projecting Expected Income for the Next 12 Months

Ken Anderson has worked for B & N Auto for the last two years. According to the application, Mr. Anderson reported that he earns \$10/hour, works 40 hours per week. His employer orally verified that he is expected to work 25 hours of overtime in the next 12 months. Since Mr. Anderson is paid weekly, he submitted his last four pay stubs through the pay period ending May 1st that show gross pay (including overtime) of \$460, \$415, \$475, and \$445. It also shows gross YTD earnings of \$5,885. Mr. Anderson's tax return for last year showed gross wages of \$16,640.

Straight-based: Base pay: $\$10/\text{hour} \times 40 \text{ hours/week} \times 52 \text{ weeks/year} = \$20,800$

Overtime: $\$15/\text{hour} \times 25 \text{ hours/year} = \375

Total wages: \$21,175

Average: $(\$460 + \$415 + \$475 + \$445) / 4 \times 52 \text{ weeks/year}$
 $= \$23,335$

YTD: $(\$5,885 / 121 \text{ days}) \times 365 = \$17,754$

Historical: \$16,640

Looking at the four results, there is no clear earning pattern. The Loan Originator should investigate further to determine why significant discrepancies exist between the calculation methods and what figure should be used. Is B & N experiencing an unusual and temporary large workload? Was Mr. Anderson absent from work for an extended period of time? Did Mr. Anderson receive a pay increase from last year? These are just a few examples of the questions that should be answered.

NOTE: These calculations should be documented in writing and included in the case file.

3. Income of Temporarily Absent Family Members

Household members may be temporarily absent from the household for a variety of reasons, such as temporary employment or students who live away from home during the school year. The income of these household members is considered when computing annual income and, if the person is a party to the note, for repayment income.

If the absent person is not considered a member of the household and is not a party to the note, the Loan Originator must not count their income, must not consider them when determining deductions for adjusted income, and must not consider them as a family member for determining which income limit to use.

Examples - Temporarily Absent Family Member

James Brown and his wife have applied for a loan. At the moment, James is working on a construction job on the other side of the State and comes home every other weekend. He earns \$600/week and uses approximately one-third of that amount for temporary living expenses. The full amount of the income earned would be counted for both repayment and annual income.

Adam Watson works as an accountant. However, he suffers from a disability that periodically requires lengthy stays at a rehabilitation center. When he is confined to the rehabilitation center, he receives disability payments equaling 80% of his usual income. During the time he is not in the unit, he will continue to be considered a family member. Even though he is not currently in the unit, his total disability income will be counted as part of the family's annual income.

Desirae Bitz accepts temporary employment in another location and needs a portion of her income to cover living expenses in the new location. The full amount of the income must be included in annual income.

Terri Glass is on active military duty. Her permanent residence is her parents' home where her husband and children live. Terri is not currently exposed to hostile fire. Therefore, because her spouse and children are in the parents' home, her military pay must be included in annual income. (If her spouse or dependents were not in the parent's home, she would not be considered a family member and her income would not be included in annual income.)

4.4 CALCULATING ANNUAL AND ADJUSTED INCOME

Adjusted income is used to determine eligibility for the Section 502 and 504 programs, as well as eligibility for and the amount of payment subsidies under Section 502.

A. Calculating Annual Income

Annual income is used as the base for computing adjusted income. Income of all household members, not just parties to the note, should be considered when computing annual income.

B. Calculating Deductions from Annual Income

Adjusted income is calculated by subtracting from annual income any of 5 deductions that apply to the household. Not all households are eligible for all deductions. Exhibit 4-2 summarizes these deductions. The remainder of this paragraph provides guidance on determining whether a family is eligible for each deduction and verifying and calculating these amounts.

Exhibit 4-2		
Allowable Deductions from Annual Income		
Deduction	Elderly Households	Nonelderly Households
Dependent Deduction	Yes	Yes
Child Care Expenses	Yes	Yes
Elderly Household	Yes	No
Medical Expenses	Yes	No
Disability Assistance	Yes	Yes

C. Dependent Deduction

A deduction from annual income of \$480 is made for each household member who qualifies as a dependent. Dependents are members of the household who are not the borrower, co-borrower, or spouse, are age 17 or younger, are an individual with a disability, or are a full-time student. The applicant/borrower, co-applicant/co-borrower, or spouse of applicant/borrower (even if the household member is temporarily absent) may never qualify as a dependent. A foster child, an unborn child, a child who has not yet joined the family, or a live-in aide may never be counted as a dependent.

Paragraph 4.4 Calculating Annual and Adjusted Income

D. Child Care Expenses

Reasonable unreimbursed child care expenses for the care of children age 12 and under are deducted from annual income if:

- (1) the care enables a household member to work, actively seek employment, or go to school;
- (2) no other adult household member is available to care for the children; and
- (3) in the case of child care that enables a household member to work, the expenses deducted do not exceed the income earned by that household member. This limitation does not apply if the child care allows a household member to go to school.

If the child care provider is a household member, the cost of the children's care cannot be deducted.

Child care attributable to the work of a full-time student (except for applicant/borrower, co-applicant/co-borrower, or spouse of applicant/borrower) is limited to not more than \$480, since the employment income of full-time students in excess of \$480 is not counted in the annual income calculation. Child care payments on behalf of a minor who is not living in the household cannot be deducted.

To qualify for the deduction, the applicant must:

- Identify the children who are receiving child care and the family member who can work, seek employment or go to school (academic or vocational) as a result of the care;
- Demonstrate there is no adult household member available to care for the children during the hours care is needed;
- Identify the child care provider, hours of child care provided, and costs;
- Verify the expense is not reimbursed by an agency or individual outside the family; and
- If the expenses enable a family member to go to school, identify the educational institution. The family member need not be a full-time student.

Verification of Child Care Expenses

Child care hours must parallel the hours the family member works or goes to school. Appendix 2 provides a sample format applicants can use to document child care. Other acceptable formats include a letter on the child care provider's letterhead or a copy of a signed child care contract.

**Example – Child Care Deduction
Separate Expenses for Time at Work and Time at School**

Lou and Bryce have two children. Both parents work, but Lou works only part-time and goes to school half-time. She pays \$4 an hour for eight hours of child care a day. For four of those hours, she is at work; for four of them she attends school. She receives no reimbursement for her child care expense.

Her annual expense for child care during the hours she works is \$4,000 and at school is \$4,000. She earns \$6,000 a year. Bryce earns \$18,000.

Lou's child care expense while she is working cannot exceed the amount she is earning while at work. In this case, that is not a problem. Lou earns \$6,000 during the time she is paying \$4,000. Therefore, her deduction for the hours while she is working is \$4,000.

Lou's expense while she is at school is not compared to her earnings. Her expense during those hours is \$4,000 and her deduction for those hours will also be \$4,000.

Lou's total child care deduction is \$8,000 (\$4,000 + \$4,000). The total deduction exceeds the amount of Lou's total earnings, but the amount she pays during the hours she works does not exceed her earnings. If Lou's child care costs for the hours she worked were greater than her earnings, she would not be able to deduct all of her child care costs.

Paragraph 4.4 Calculating Annual and Adjusted Income

E. Elderly Household Deduction

A single \$400 deduction is subtracted from annual income for any elderly household. To be considered an elderly household, a party to the note must be 62 years of age or older or an individual with a disability. Because this is a “family deduction” each household receives only one deduction, even if more than one member is elderly or disabled.

Typical Disability Expenses

- Care attendant to assist an individual with disabilities with activities of daily living directly related to permitting the individual or another family member to work.
- Special apparatus, such as wheelchairs, ramps, adaptations to vehicles or work place equipment, if directly related to permitting the individual with disabilities or another family member to work.

In the case of a family where the deceased applicant/borrower or spouse was at least 62 years old or an individual with disabilities, the surviving family member shall continue to be classified as an “elderly household” for the purposes of determining adjusted income if:

- At the time of death of the deceased family member, the dwelling was financed by the Agency;
- The surviving family member occupied the dwelling with the deceased family member at the time of death; and
- The surviving spouse (if any) has not remarried.

F. Deduction for Disability Assistance Expense

Families are entitled to a deduction for un-reimbursed, anticipated costs for attendant care and “auxiliary apparatus” for each family member who is a person with disabilities, to the extent these expenses are reasonable and necessary to enable any family member 18 years of age or older who may or may not be the member who is a person with disabilities (including the member who is a person with disabilities) to be employed. The applicant must describe the nature of the expense, provide documentation of the costs, and demonstrate that the expense enables a family member to work. Reasonable documented expenses for care of the individual with disabilities in excess of 3 percent of annual income may be deducted from annual income if the expenses:

- Enable the individual with disabilities or another family member to work;
- Are not reimbursable from insurance or any other source; and

- Do not exceed the amount of earned income included in annual income by the person who is able to work as a result of the expenses. If the disability assistance enables more than one person to be employed, the combined incomes of all persons must be included.

To qualify for this deduction, applicants must identify the individual with a disability on the application. Form RD 1944-4, Certification of Disability or Handicap should be used to request verification of the individual's disability from a physician or other medical professional.

Example – Eligible Disability Assistance Expenses

The payments made on a motorized wheelchair for the 42-year-old son of the applicant/borrower enable the son to leave the house and go to work each day on his own. Prior to purchase of the motorized wheelchair, the son was unable to make the commute to work. These payments are an eligible disability assistance expense.

NOTE: Auxiliary apparatus includes, but is not limited to, items such as wheelchairs, ramps, adaptations to vehicles, or special equipment to enable a sight-impaired person to read or type, but only if these items are directly related to permitting the disabled person or other family member to work. If the apparatus is not used exclusively by the person with a disability, the total cost must be prorated to allow a specific amount for disability assistance.

- **Include payments on a specially-equipped van to the extent they exceed the payments that would be required on a car purchased for transportation of a person who does not have a disability.**
- **The cost of maintenance and upkeep of an auxiliary apparatus is considered a disability assistance expense (e.g., veterinarian and food costs of a service animal; cost of maintaining equipment that is added to a car, but not the cost of maintaining the car).**

Payments to a care attendant to stay with a disabled 16-year-old child allow the child's mother to go to work every day. These payments are an eligible disability assistance expense. When the same provider takes care of children and a disabled person over age 12, prorate the total cost and allocate a specific cost to attendant care. The sum of both child care and disability assistance expenses cannot exceed the employment income of the family member enabled to work.

NOTE: Attendant care includes, but is not limited to, expenses for home medical care, nursing services, housekeeping and errand services, interpreters for hearing-impaired, and readers for persons with visual disabilities.

Paragraph 4.4 Calculating Annual and Adjusted Income

Example – Calculating a Deduction for Disability Assistance Expenses	
Applicant/Borrower earned income	\$14,500
Co-Applicant/Co-Borrower earned income	+ <u>\$12,700</u>
Total Income	\$27,200
Care expenses for disabled 15-year-old	\$ 3,850
Calculation:	\$ 3,850
(3% of annual income)	<u>-\$ 816</u>
Allowable disability assistance expenses	\$ 3,034
(NOTE: \$3,034 is not greater than amount earned by co-applicant/co-borrower, who is enabled to work.)	

G. Deduction for Medical Expenses (for Elderly Households Only)

Medical expenses may be deducted from annual income for elderly households if the expenses: (1) will not be reimbursed by insurance or another source; and (2) when combined with any disability assistance expenses are in excess of 3 percent of annual income.

If the household qualifies for the medical expenses deduction, expenses of the entire family are considered. For example, if a household included the head (grandmother, age 64), her son (age 37), and her granddaughter (age 6), the medical expenses of all 3 family members would be considered.

- | Examples - Typical Medical Expenses |
|--|
| <ul style="list-style-type: none"> • Services of physicians, nurses, dentists, opticians, chiropractors, and other health care providers • Services of hospitals, laboratories, clinics, and other health care facilities • Medical, Medicaid and long-term care premiums, and expenses to HMO • Prescription and nonprescription medicine prescribed by a physician • Dental expenses, x-rays, fillings, braces, extractions, and dentures • Eyeglasses, contact lenses, and eye examinations • Medical or health products or apparatus (hearing aids, batteries, wheel chairs, etc.) • Attendant care or periodic medical care (visiting nurses or assistance animal and its upkeep) • Periodic scheduled payments on accumulated medical bills • Travel expense and lodging for medical treatment |

Examples - Excluded Medical Expenses

- Unnecessary cosmetic surgery to improve the patient’s appearance such as face lifts, hair transplants/removal, and liposuction
- Health Club or YMCA dues, steam baths for general health or to relieve physical or mental discomfort not related to a particular medical condition
- Household help even if recommended by a doctor
- Medical savings account (MSA)
- Nutritional and herbal supplements, vitamins, and “natural medicines” unless these can be obtained legally only with a physician’s prescription
- Non-prescription drugs unless prescribed by a physician for a particular medical condition
- Personal use items unless used primarily to prevent or alleviate a physical or mental defect or illness

One of the most challenging aspects of determining allowable medical expenses is estimating a household’s medical expenses for the coming year. While some anticipated expenses can be documented easily (for example, Medicare or other health insurance premiums and ongoing prescriptions), others need to be estimated. The Loan Originator should use historical information about medical bills to estimate future expenses. However, the estimates should be realistic. For example, if the household has a significant medical bill, the Loan Originator would count only that portion of the bill that is likely to be paid during the coming year.

Example - Calculating the Medical Expense Deduction

The Jensons are an elderly household with annual income of \$25,000 and anticipated medical expenses of \$3,000 that are not covered by insurance or another source. The allowable medical expenses would be:

Total Medical Expenses	\$3,000
(less) 3% Annual Income	<u>\$ 750</u>
(\$25,000 x 0.03)	
Allowable Medical Expenses	\$2,250

Example – Medical Expense Paid over a Period of Time

Chynna Ray and Justin Grog did not have insurance to cover Justin’s operation four years ago. They have been paying \$105 a month toward the \$5,040 debt. Each year that amount

(\$105 x 12 months or \$1,260) has been included in total medical expenses. A review of their file indicates that a total of \$5,040 has been added to total medical expenses over the four-year period. Over the four-year period they have missed five payments and still owe \$525. Although they still owe this amount, the bill cannot be included in their current medical expenses because the expense has already been deducted.

Paragraph 4.4 Calculating Annual and Adjusted Income

H. Calculating Repayment Income

Repayment income is the amount of the household’s income that is available to repay the Agency’s debt. To compute repayment income, the Loan Originator should count only the income of persons who will be parties to the note.

The Standard PITI and TD ratio limitations are based on an assumption that applicant income is taxable. If a particular source of income is not subject to Federal taxes, for example, certain types of disability payments or military allowances, the amount of continuing tax savings attributable to the nontaxable income source **will** be added to the applicant’s repayment income.

Nontaxable income, such as Housing Choice Vouchers, social security, and child support (provided it is stable and is expected to continue for at least two years), will be multiplied by 120 percent to “gross up” such income.

Example – “Grossing Up” Nontaxable Income

The applicant’s repayment income of \$22,000 includes \$5,000 of nontaxable income.

The revised repayment income for the applicant would be calculated as follows:

\$17,000	Taxable income
<u>+ 6,000</u>	“Grossed-Up” Nontaxable Income (\$5,000 x 1.2)
\$23,000	Revised Repayment

Under current tax law some State and local issuers of mortgage bonds may issue MCC to provide a Federal income tax credit to assist low-income home buyers and home owners. The credit permits an eligible household to claim a specific percentage of the annual interest paid on a mortgage as a tax credit rather than a deduction. If an applicant will receive the credit, the benefit of the credit will be “grossed up” for the repayment ability income calculation as described in Paragraph 4.4 H when the applicant adjusts their Federal tax withholdings via IRS Form W-4 to reflect the decrease in their tax liability. MCCs are issued through private lenders and rarely encountered in the 502 Direct program.

SECTION 2: EVALUATING BORROWER ASSETS [7 CFR 3550.54(d)]

4.5 OVERVIEW OF POLICIES RELATED TO ASSETS

Assets affect an applicant's ability to obtain a loan in 2 ways. First, applicants may be required to use non-retirement assets to make a down payment covering some of the costs of purchasing a home. Second, many types of assets generate income that must be included in the calculations of annual and repayment income. An applicant's assets are considered for annual and repayment income, as well as for down payment purposes, as applicable. Net family assets are considered for annual income and down payment purposes, as applicable, but shall be excluded from repayment income. Asset documentation may also provide useful information for loan underwriting. Exhibit 4-3 presents a list of assets that must be considered when making these determinations and also identifies certain types of assets that are not considered.

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.

Retirement assets (applicants only) including:

- Amounts in voluntary retirement plans that can be withdrawn, such as individual retirement accounts (IRAs), 401(k) or 403(b) plans, and Keogh accounts; and
- Amounts in other retirement and pension plans that can be withdrawn without retiring or terminating employment.

The following types of assets are not considered.

- The value of necessary items of personal property, such as furniture, clothing, cars, wedding rings and other jewelry not held as an investment, and vehicles specially equipped for persons with disabilities;
- Assets that are part of any business, trade, or farming operation in which any member of the household is actively engaged;
- The value of an irrevocable trust fund, or the value of any trust over which no member of the household has control;
- Term life insurance policies where there is no cash value;
- Interests in American Indian restricted land;
- The value of tax advantaged health, medical savings or spending accounts, and college savings plans; and
- For income calculations, any assets on hand that will be used to reduce the amount of loan.

4.5 Overview of Policies Related to Assets

Example – Assets that are Part of an Active Business

Megan and Tylar Wasson own a copier and courier service. None of the equipment that they use in their business is counted as an asset (e.g., the copiers, the fax machines, the bicycles).

A. Reporting Assets

Applicants must provide information about household assets at the time of loan application and whenever an income determination is made. Applicants must provide sufficient documentation to enable the Loan Originator to verify the asset information and compute the market and cash value of the asset. Applicants must provide assets documentation as required on Paragraph 4.3 regardless of the balance or value of the assets disclosed. In addition, Form RD 3550-4, Employment and Asset Certification, will be used to confirm the level of the household's combined net assets.

B. Verification of Assets

Copies of bank or brokerage company statements provide more information than just account balances. The transaction history reveals recurring deposits or debits that may impact the applicant's ability to qualify for a loan. Assets statements must cover account activity for the most recent two-month period (or, if account information is reported on a quarterly basis, for the most recent quarter). Loan originators must:

- Confirm that the applicant has enough funds for closing.
- Obtain a credible explanation from the applicant regarding the source of funds for any large deposits or increase in the account balance. A large deposit may be the proceeds from a new personal loan not yet reported to the credit bureaus.

C. Calculating Market and Cash Value

The **market value** of an asset is simply its dollar value on the open market. For example, the market value of \$2,000 in a savings account is \$2,000 and the market value of real estate is its appraised value. The **cash value** of an asset is the market value, less reasonable expenses to convert the asset to cash. For example, the cash value of stock worth \$5,000 would be \$5,000 less any broker's fee.

D. Retirement Assets

Retirement assets are savings and investments that have been specifically designated as retirement funds. Access to retirement assets is restricted by law, employer policy, or both, depending on the retirement arrangement's legal form. Typical restrictions include retirement age, vesting requirements, and ability to access funds.

Typical Retirement Plans

- Employer-sponsored retirement plans: 401(k), 403(b), 457 plans, employer and employee association trust accounts, money purchase plans, profit-sharing plans, SEP-IRAs (Simplified Employee Pensions) and SIMPLE IRAs (Savings Incentive Match Plans for Employees).
- Individual Retirement Arrangements (IRAs): Traditional IRA, Roth IRA, and Keogh plans.

Example – Withdrawals from IRAs or 401(k) Accounts

Jim Dunn retired recently. He has an IRA account but is not receiving periodic payments from it because his pension is adequate for his routine expenses. However, he has withdrawn \$2,000 for a trip with his children. The withdrawal is not a periodic payment and is not counted as income.

4.6 LIMITATIONS ON ASSETS

If the cash value of non-retirement assets is greater than \$15,000 for nonelderly households or \$20,000 for elderly households, the cash value in excess of these amounts must be used toward the purchase of the property.

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

4.7 CALCULATING INCOME FROM ASSETS FOR ANNUAL INCOME

For the purpose of computing annual income, the current assets (retirement and non-retirement) of all applicants and co-applicants, as well as applicable net family assets, are considered. Reference Exhibit 4-1 for additional information.

4.8 CALCULATING INCOME FROM ASSETS FOR REPAYMENT INCOME

When calculating assets for repayment income, only the assets of the note signers are considered, and the actual income derived from the assets, which are determined stable and dependable, are used. Form RD 3550-4, Employment and Asset Certification, should be used to certify the level of the household's net family assets.

SECTION 3: CREDIT HISTORY [7 CFR 3550.53(h)]

4.9 OVERVIEW

To be eligible for a Section 502 loan, applicants must demonstrate that they are reasonably able and willing to repay an Agency loan. This section discusses the credit requirements, the additional credit checks, how to conduct the full credit history review, when to use Form RD 1944-61, and the criteria for making credit exceptions.

4.10 CREDIT REQUIREMENTS

The Loan Originator must evaluate the credit history of each proposed party to the note. An applicant's credit record does not have to be perfect; a few instances of credit problems can be acceptable if an applicant's overall credit record demonstrates an ability and willingness to repay obligations. Exhibit 4-4 outlines indicators of unacceptable credit that must be investigated by the Loan Originator. These indicators are not automatic disqualifiers. The Loan Approval Official can make exceptions in limited circumstances, as described in Paragraph 4.14.

The Loan Originator must investigate indicators of unacceptable credit to determine whether they are accurate, and whether there is an acceptable explanation for the problem that might justify an exception. Failure to understand the nature of a credit problem could put the Agency at risk of providing financing to an applicant who is unable or unwilling to repay the debt, or could cause the Agency to reject an applicant on the basis of inaccurate or incomplete information.

<p style="text-align: center;">Cosigners</p> <p style="text-align: center;">Cosigners must meet the same credit-worthiness requirements as applicants and cannot be used to compensate for an applicant's unacceptable credit history.</p>

For instance, an applicant with little or no credit history reflected on a credit report will require further examination. Since some creditors do not report to the credit repositories, the Loan Originator should identify nontraditional credit sources to develop a credit history. Nontraditional credit information that may demonstrate the applicant's ability and willingness to meet debt obligations should be verified using the guidelines in Paragraph 4.12, which include third party verifications from impartial and unrelated parties, canceled checks that cover a sufficient period of time, or other acceptable means.

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.
- Outstanding collection accounts with a record of irregular payments with no satisfactory arrangements for repayment, or collection accounts that were paid in full within the last 6 months, unless the applicant had been making regular payments previously.
- 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.
- A court-created or court-affirmed obligation or judgment caused by nonpayment that is currently 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; or
 - ◊ Where an applicant successfully completed a bankruptcy debt restructuring plan and has demonstrated 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.

An applicant with an outstanding judgment obtained by the United States in a Federal court, other than the United States Tax Court, is not eligible for a Section 502 loan. This requirement is statutory and cannot be waived.

Paragraph 4.10 Credit Requirements

If an applicant's credit history is unacceptable, the Loan Originator should counsel the applicant about the specific problems identified, and ways to improve the household's credit record for the future. The Loan Originator should make it clear that establishing a pattern of meeting obligations that conforms to the Agency's standards might make it possible for the applicant to qualify for a Section 502 loan in the future.

The Loan Originator must use consistent standards and procedures when evaluating credit qualifications to ensure equity and fairness. Special areas of concern include:

- Determining what constitutes acceptable documentation;
- Counseling applicants about ways to correct adverse credit; and
- Interpreting subjective information.

4.11 CONDUCTING ADDITIONAL CREDIT CHECKS

Over and above ordering a Tri-Merge Credit Report (TMCR), the Loan Originator should check the Department of Treasury's Do Not Pay (DNP) portal and MortgageServ's "SSN CROSS REFERENCE" softlink key.

A. Do Not Pay Portal

Except in very unusual circumstances, an applicant who is delinquent on a Federal debt is not eligible for the direct programs. The Loan Originator can verify whether the applicant has delinquent Federal debt through the DNP portal.

Rural Development staff should visit the Agency's DNP SharePoint page for more information including training, FAQ's, newsletters, etc.:

https://usdagcc.sharepoint.com/sites/rd_cfo/icd/DoNotPay/SitePages/Home.aspx

Paragraph 4.11 Conducting Additional Credit Checks

Through the DNP portal, the following data sources will be checked: Credit Alert System; SAM Exclusion Records; SSA Death Master File; and Treasury Offset Program Debt Check.

For the Credit Alert System, a checked result (i.e. a hit was return) could indicate a “Case Type” of B (multiple hits), C (claim), D (default), F (foreclosure), or J (judgment). The applicant has no adverse credit found in the Credit Alert System if there is no checked result.

The Loan Originator should print the DNP results page and file it in the applicant’s case file to document that the applicant’s delinquency status has been checked.

**Exceptions to
Delinquent Federal Debt**

If the applicant has a delinquent Federal debt, the Administrator has the authority to grant an exception if arrangements for payment have been made and it is in the best interest of the Government.

If DNP indicates that the applicant has a delinquent Federal debt, the Loan Originator should suspend application processing, notify the applicant of the reason for the suspension, and provide the telephone number DNP lists as a point of contact for resolving the delinquency. If the applicant does not notify the Agency within 15 days that the problem has been resolved, the Loan Approval Official must reject the application and the applicant should be notified in writing. The Administrator may grant an exception to this requirement if it is in the best interest of the Government.

If the delinquency is paid in full or otherwise resolved within the 15-day time frame, application processing can continue. If the applicant resolves the issue after the application has been rejected, and wishes to reapply, the applicant must submit a new application, which must be processed according to the new submission date.

A. Infile Credit Report

Infile credit reports can only be used for pre-qualification reviews completed by Agency staff, which should be limited as outlined in Section 1 of Chapter 3.

Infile credit reports will not be obtained for 502 direct packaged loan applications, as the packager is responsible for conducting the pre-qualification review. The only credit report pulled by the Agency will be a TMCR when a complete 502 direct application is received.

Infile credit reports will be obtained by the Agency for all 504 applicants with adjusted income greater than 30% of adjusted median income, regardless of the size of the loan being requested.

Since infile credit reports for pre-qualifications and TMCRs for complete applications are considered a hard inquiry on the applicant's credit report, care must be taken to avoid unnecessary orders. Do not order an infile credit report to confirm that a debt has been paid or for other similar reasons and do not order an infile credit report once an application has been received.

4.12 CONDUCTING FULL REVIEW OF CREDIT HISTORY

Once a complete application is received, the Loan Originator must order a tri-merge credit report through UniFi. When an incomplete application packet and credit report fee have been received, the Loan Originator will order the tri-merge credit report through UniFi as long as, at a minimum, Form RD 3550-1, Authorization to Release Information has been received. Otherwise, the fee must be returned to the applicant if it cannot be deposited within 3 business days of receipt.

Helpful Hint

Unless the applicant makes a written request for a copy of their tri-merge credit report, the Agency will not provide a copy. Applicants are not entitled to a copy of their infile credit report that may have been pulled during the pre-qualification process.

A credit report from another party (e.g. Self-Help Grantee, loan application packager, or leveraged lender) cannot be used in the Agency's decision-making process. The Loan Originator must also obtain the applicable third-party credit verifications to determine whether the applicant's credit history meets the Agency's criteria.

Procedures for obtaining third-party verifications are described in Paragraph 3.15. Guidelines for reviewing the applicant's credit history are provided here.

If an applicant is denied assistance based upon information contained in a tri-merge credit report, the Agency must provide the applicant:

- The name, address, and toll free number of the credit bureau;
- A statement to the applicant that the denial of their loan request was made by the Agency, and not the credit bureau;
- Notice of their right to obtain a free copy of their credit report from the credit bureau within 60 days from the date of the Agency's adverse action; and
- Notice of the applicant's right to dispute to the credit bureau the accuracy or completeness of the credit report provided to the Agency.

Paragraph 4.12 Conducting Full Review Of Credit History

A. Tri-Merge Credit Report

The Tri-Merge Credit Report (TMCR) will include Equifax Beacon 5.0, TransUnion FICO Risk Score 04, and Experian Fair Isaac v2 credit scores, if available. The report will include data from the three main repositories, updated verifications on all trade lines with a balance (updated to within 90 days), and a court records check that includes adverse items for the prior 7-year period. The TMCR will also provide the results of a check against the U.S. Department of the Treasury's Office of Foreign Assets Control (OFAC) database. OFAC administers and enforces economic and trade sanctions against targeted foreign countries, terrorists, international narcotics traffickers, and those engaged in activities related to the proliferation of weapons of mass destruction. If an OFAC match message appears on the TMCR, refer to the U.S. Treasury website at <https://www.treasury.gov/about/organizational-structure/offices/Pages/Office-of-Foreign-Assets-Control.aspx> for guidance on how to determine if the match is valid. If a due diligence review concludes that the match is valid, the applicant should be denied assistance and referred to the OFAC contact number for further information as per the aforementioned website. If there is no OFAC match message on the TMCR, or the match was not valid, processing may continue as directed in the following paragraphs.

For applicants with no outstanding judgments obtained by the United States in a Federal court, with no significant delinquency, and who have more than one credit score listed on their TMCR that result in a credit score of 640 or higher on their TMCR, Exhibit 4-4 need not be used to identify indicators of unacceptable credit handling. In addition, a verification of rent and Form RD 1944-61, Credit History Worksheet, need not be completed. These applicants are automatically classified as having acceptable credit histories regardless of what is listed on the TMCR. To avoid potential disparate treatment, additional credit analysis is not appropriate. Credit scores are used to reduce the time necessary to conduct credit analyses, **but under no circumstance can credit scores be used to make adverse decisions.**

An applicant with significant delinquency on the credit report, even with a credit score of 640 or higher, will be subject to further credit analysis and Form RD 1944-61 must be completed. Significant delinquency includes the following:

- 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.

Paragraph 4.12 Conducting Full Review Of Credit History

- 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.

Having an insufficient credit score does not mean the applicant has demonstrated inability or unwillingness to repay debt; it means the Loan Originator must obtain nontraditional credit sources to make this determination and use Form RD 1944-61, Credit History Worksheet to conduct the credit analysis. To preclude the use of Exhibit 4-4 to identify indicators of unacceptable credit handling, the following practice will be established:

- If the three credit scores are listed on the TMCR, the middle numerical score should be used.
- If the TMCR only contains two scores, the lower of the two should be used.
- If the TMCR only contains one score, a full credit analysis must be completed.
- If no score is available, the credit bureau will report a “zero.” Zero in these cases has the literal meaning of null, or indicating there was not enough information or credit references for the statistical model to compute a credit score value.
- If there is more than one applicant, each applicant must be viewed separately.

Paragraph 4.12 Conducting Full Review of Credit History

- Loan Originators must obtain nontraditional credit verifications to augment a credit report if the applicant has less than two scores. However, non-traditional credit must never be used to enhance the credit of an applicant with a negligent credit history (poor payment history, excessive use of credit, over the credit limit balances, etc.) or to offset derogatory references found in the applicant's traditional credit report, such as collections and judgments, even if the traditional credit is insufficient.

If the resulting credit score is less than 640 and the TMCR contains any indicators of unacceptable credit as outlined in Exhibit 4-4, the Loan Originator should discuss the findings with the applicant and ask for third-party verifications that support the applicant's assertions. A copy of the TMCR must be retained in the case file. If the TMCR is expected to be more than nine months old when the underwriting decision is to be made or at the time of closing, a new report must be ordered at no cost to the applicant.

B. Fair and Accurate Credit Transactions

In accordance with the Fair and Accurate Credit Transactions (FACT) Act of 2003, the Agency is required to disclose to the applicant, upon request, the score that a credit bureau distributed and was used in connection with their loan. In addition, we are required to disclose the key factors affecting the applicant's credit scores. Therefore, Attachment 3-H, Credit Score Disclosure, must be provided to the applicant. It must be explained to the applicant that the credit score was not used to determine loan approval. The Agency only uses the credit score to presume acceptable credit in lieu of other credit underwriting practices.

Consumers also have the right to dispute information on their credit report, which they believe to be inaccurate. This can be done directly with the furnisher of credit, as well as a consumer reporting agency. Because the Agency's credit review may be subject to change upon resolution of a disputed account, Form RD 1944-59, Certificate of Eligibility, or loan approval should not be issued until the dispute is resolved. Generally, disputes are investigated by the consumer reporting agency(s) within 30 to 45 days of receipt of the notice of dispute from the consumer; and written results of the investigation are provided to the consumer within 5 business days after completion of the investigation. For more information visit <https://www.ftc.gov/> and <http://www.consumerfinance.gov/askcfpb/>.

The FACT Act also added a new section to the Fair Credit Reporting Act to prohibit creditors from obtaining or using medical information pertaining to a consumer in connection with any determination of the consumer's eligibility, or continued eligibility, for credit.

Consumer reporting agencies are prohibited from providing a lender with a credit report that contains identifying information for medical debts (be it a collection, judgment, etc.). The name of the medical service provider and the nature of the medical service is suppressed or coded so that lender decisions are not based on discriminatory factors. However, suppression or coding of identifying information for medical debts does not eliminate the need for consideration. Medical debts that are chronically late, placed in collection, or turned into judgments remain indicators of unacceptable credit handling that must be addressed (unless the applicant has a credit score of 640 or higher).

Since the indicators of unacceptable credit handling are general guidelines that aid in determining the degree of risk and are not absolute underwriting criteria, the Loan Originator must subjectively consider the circumstances that resulted in the blemished debt. If the identifying information for a medical debt is suppressed or coded and the applicant is claiming that the debt resulted from a situation that was beyond their control, the applicant must provide adequate third-party documentation to support their claim.

If the applicant cannot identify the medical debt given the payment information (date opened, balance owing, etc.), the applicant will have to contact the repository directly to obtain a copy of their credit report. Credit reports provided by a repository directly to a consumer will not have the medical information suppressed. To avoid a fee, the applicant can obtain a free credit report by calling 1-877-322-8228 or logging into <https://www.annualcreditreport.com>. 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.

An exception cannot be granted on that the applicant's assertion that they were unaware of the blemished debt or that the blemished debt is not theirs. Supporting documentation must be furnished before a Loan Approval Official considers granting an exception.

Paragraph 4.12 Conducting Full Review of Credit History

A. Other Credit Verifications

If, and only if, the applicant's credit score is less than 640, the Loan Originator should send Form RD 1944-60, Landlord's Verification, and Form RD 410-8, Applicant Reference Letter, to the parties indicated in the application. The forms should be accompanied by a preaddressed, pre-stamped envelope and Form RD 3550-1, Authorization to Release Information, which authorizes the respondent to release the information.

1. Landlord's Verification

Form RD 1944-60 is used to verify the applicant's past record of making timely rental payments. The Loan Originator should generate separate copies of Form RD 1944-60 for each landlord listed on the application for the past 2 years. A landlord's verification is required when the applicant's credit score is less than 640.

If the landlord reports that during the past 24 months (or whatever is applicable) the applicant "always pays by the due date" and is current on the rent, the applicant's rental history should be considered satisfactory. If the landlord reports that the applicant "pays over 30 days late" or "generally stays behind schedule," or if the applicant is currently behind on the rent, the Loan Originator should follow up with a call to the landlord.

Confirmation that the applicant has paid 2 or more rent payments 30 or more days late within the last 2 years generally would be an indicator of unacceptable credit. However, if the amount of rent paid by the applicant was significantly higher than the likely cost of principal, interest, taxes and insurance (PITI) with a Section 502 loan, an exception might be appropriate.

2. Applicant Reference Letter

Form RD 410-8 is used to obtain information about an applicant's credit history that might not appear on a credit report, for example, credit from a local store. It can be used to document an ability to handle credit effectively for applicants who have not used sources of credit that appear on a credit report. It also provides a mechanism for following up on repayment history for debts reported by the applicant on the application that do not appear on the credit report.

3. Non Traditional / Alternative Credit

For applicants who do not use traditional credit, or that have less than two credit scores, the Loan Originator must develop a credit history from at least three sources. However, only two sources are required if one of those is a verification of rent or mortgage payments.

A combination of traditional and nontraditional sources may be used to develop the credit history; and the non-traditional payments should have been made for at least 12 months within the past 24 months from the date of the credit report.

Loan Originators must verify that the providers of nontraditional credit exist, and confirm that the applicant, in fact, has credit history with the creditor. Payments made to relatives for credit sources are ineligible as a nontraditional credit reference.

- a. **Verification of a Nontraditional Credit Provider:** To verify the credit provider information, Loan Originators must use a published address or telephone number for that creditor, such as listing in the yellow pages.
- b. **Confirming the Existence of a Nontraditional Credit:** Documentation to confirm that the nontraditional credit exists and that the applicant has sufficient credit references to evaluate his/her ability and willingness to repay debt may include a sufficient payment history from the following sources:
 - **Preferred Sources:** Rental housing; utilities (if not included in the rent payment); telephone service, cable television, and internet service; insurance payments (payroll deductions to pay for insurance premiums are not considered alternative credit).
 - **Alternative Sources:** Payments to child care providers (provided the provider is an established child care business); school tuition; payments to local retail stores; storage units companies; payment arrangements for the uninsured portion of any medical bills; a history of saving by regular deposits resulting in a balance equal to three months of the proposed mortgage payments; and similar credit sources. Child support paid is not an acceptable source.

The payment history may be obtained by sending Form RD 410-8, Applicant Reference Letter, to the nontraditional creditors indicated by the applicant or by obtaining canceled checks, money order receipts, billing statements, and/or payment history print-outs from the creditor. Loan Originators should carefully evaluate the billing statements to establish the payment history (past due amounts, late payment charges) for the Loan Approval Official's review. General statements such as "satisfactory" or "in good standing" are not sufficient to establish a satisfactory repayment history.

Paragraph 4.12 Conducting Full Review Of Credit History

The payment history should cover 12 months within the past 24 months from the date of the application. However, other payment installments (such as quarterly or annually) can be considered when verifying nontraditional credit sources. When other payment installments are used, the length of the payment history should be adjusted accordingly. If the payments are made quarterly, verify that the last four payments were made. If the payments are made annually, verify that at least the last two payments were made.

B. Non-Purchasing Spouse Credit History

In community property states, the non-purchasing spouse's obligations must be considered in the total-debt ratio to determine the applicant's purchasing capacity, unless excluded by State law. However, the non-purchasing spouse's credit history is never considered a reason to deny a loan application. The Loan Originator must comply with applicable lending laws in community property states.

To assist the Agency in verifying the non-purchasing spouse's obligations, and since UniFi will allow the ordering of credit reports on applicants only, the applicant's non-purchasing spouse must provide a copy of a credit report (or reports) which contains information from each of the nationwide consumer credit reporting companies – Equifax, Experian, and TransUnion. The application will be considered incomplete until this information is provided. Ideally, the non-purchasing spouse will be able to furnish a copy of their free report obtained through <https://www.annualcreditreport.com>. The provided report (or reports) cannot be more than nine months old when the underwriting decision is to be made or at the time of closing. The Housing Program Director may waive this requirement on a case-by case if obtaining the non-purchasing spouse's credit report isn't feasible. For instance, the non-purchasing spouse is not a citizen or is an emancipated minor. The non-purchasing spouse's obligations will be evaluated in the same way the applicant's debts are evaluated and in accordance with the guidance in Paragraph 4.22.B. Unless excluded by State law, judgments of a non-purchasing spouse in a community property state will be paid in full unless an exception is obtained from the Loan Approval Official.

Community property states include: Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington and Wisconsin. Puerto Rico allows property to be owned as community property as do several Indian jurisdictions. Alaska is an opt-in community property state, where property is separate unless both parties agree to make it community property through a community property agreement or a community property trust. As laws vary from state to state, Loan Originators should contact the appropriate Office of General Counsel with questions regarding the consideration of a non-purchasing spouse's credit history.

Exhibit 4-5
Guidelines for Evaluating Credit Reports

- Different credit bureaus or repositories present information in different formats. Be familiar with the different formats and take time in reviewing the report to avoid errors.
- Obtain clarification of any questionable items or terms (for example, terms such as “slow” or “late pay” have varied meanings). No decisions should be made until the terms in question are translated into defined terms (e.g., for this repository, “slow pay” means 30 days late). Document clarification of terms in the case file.
- Upon receiving the credit report, verify the name, address, and Social Security Number.
- Compare the employment information and rental data on the credit report, if available, with the information on the application.
- Compare the remainder of the credit report to the application. Consider the following questions when reviewing the application.
 - ◇ Are all the accounts reported on the credit report listed on the application? (Note: There may be additional accounts on the application that are not on the credit reports because not all creditors furnish information to a credit bureau or repository.)
 - ◇ Does any of the information on the credit report contradict the application?
 - ◇ What information indicates unacceptable credit? List late payments, charge offs and other relevant information.
 - ◇ Does the credit report have accounts included in a consumer credit counseling program? If so, document a 12-months repayment history under the plan with all payments made on time and the applicant has written permission from the counseling Agency to enter into a mortgage transaction.
 - ◇ Does the applicant rely heavily on the use of revolving credit? Account balances that are at, near, or over the credit limit may indicate that the applicant is overextended.
 - ◇ Is the applicant responsible for the trade line or an authorized user? An authorized user account may not be considered when determining the applicant’s creditworthiness unless the applicant provides supporting documentation to demonstrate that they have made the monthly payments for the past 12 months.
- If the credit report reflects no credit history, ask the applicant for other nontraditional credit that may demonstrate a willingness to pay recurring debts like rent, utilities, phone, medical, etc. Third party verifications from impartial and unrelated parties or canceled checks that cover a sufficient period of time are acceptable forms of documentation.
- Review the number and dates of credit inquiries. The presence of many and recent credit inquiries in different industries may indicate that the applicant is looking for credit to finance purchases. Confirm that the applicant has not obtained new credit that is yet to be reflected in the credit report.
- Highlight areas of concern and develop a list of questions or issues that need clarification from the applicant.

4.13 CREDIT HISTORY WORKSHEET

If the applicant's credit score is less than 640, Form RD 1944-61, Credit History Worksheet, must be used to summarize the applicant's credit history and to determine whether there are any indicators of unacceptable credit as outlined in Exhibit 4-4. The Loan Originator should complete this form and include it in the case file to aid the Loan Approval Official in reviewing the applicant's credit history. The Loan Approval Official must confirm the completeness and accuracy of this form before making a credit decision.

4.14 ASSESSING ADVERSE CREDIT

A. Making Exceptions

The Loan Originator should review the credit history for any signs of unacceptable credit using the criteria outlined in Exhibit 4-4. Credit history problems may be more reflective of an inability than an unwillingness to meet financial obligations. However, derogatory credit may also be the result of extenuating circumstances causing a significant reduction in income and/or increase in financial obligations. Extenuating circumstances are events beyond the applicant's control and unlikely to reoccur. The applicant must provide a letter to explain the nature of the event that led to the derogatory credit and provide supporting documentation accordingly. The Loan Approval Official must carefully review the documentation provided by the applicant to confirm that the adverse credit was in fact due to extenuating circumstances (e.g. the dates of the derogatory credit must be consistent with the dates of the event) and not financial mismanagement. The loan file must include an underwriting analysis explaining the rationale for the credit exception and determination that the events causing the financial difficulties were, in fact, beyond the applicant's control and are unlikely to reoccur.

The Loan Approval Official may consider an exception in the following types of situations.

- **Reduced shelter costs.** The applicant's rental or mortgage payment history has been unacceptable and the loan will significantly reduce the applicant's shelter costs, which will result in improved debt repayment ability. Anticipated utility cost savings due to energy efficiency improvements (e.g. furnace replacement, insulation, energy efficient windows, etc.) may also be considered a reduced shelter cost for an existing homeowner.

- **Temporary situation.** The circumstances that caused the credit problems were temporary in nature and beyond the applicant's control. Examples include loss of job, delay or reduction in benefits, illness, or dispute over payment of defective goods or services.
- **Benefit to the Government.** The applicant is delinquent on a Federal debt, and the Agency loan will allow the applicant to take actions that benefit the Government. **This type of exception can only be made by the Administrator.**

The Loan Approval Official is not authorized to make an exception in the case of an applicant with an outstanding judgment obtained by the United States in a Federal court, other than the United States Tax Court.

B. Reviewing Significant Delinquencies

1. Chapter 7 Bankruptcy

A Chapter 7 bankruptcy, also known as liquidation bankruptcy, eliminates all of an individual's unsecured debt. Applicants with a Chapter 7 bankruptcy discharged more than 36 months prior to the loan application are not considered to have unacceptable credit as long as they have re-established good credit. Re-establishing good credit includes consistently making payments on time, not incurring additional or excessive debt, and keeping balances significantly below the credit limit.

If the bankruptcy has been discharged less than 36 months from the date of application, the Loan Approval Official may make a credit exception if the bankruptcy was due to extenuating circumstances and the applicant has been able to re-establish good credit since the factors leading to the extenuating circumstance were removed. The loan file must include the loan documentation requirements for making a credit exception using extenuating circumstances.

2. Chapter 13 Bankruptcy

A Chapter 13 bankruptcy is a repayment plan that protects individuals from collection action during the plan period, from three to five years, and discharges any unpaid balance at the end of the plan. The repayment amount is determined by the court based on the individual's income. An applicant with a Chapter 13 Bankruptcy reported on the credit profile may be able to qualify for a loan if the following requirements are met:

Paragraph 4.14 Assessing Adverse Credit

- Successful completion of the debt restructuring plan. The completion date is the bankruptcy discharge date; and
- Demonstrate willingness to meet obligations when due for the 12 months prior to the date of application. The last 12-month payments made under the bankruptcy restructuring plan may be used to document the applicant's willingness to repay debt. This means that all required payments were made on time and for the amount agreed upon under the plan.

A Chapter 13 bankruptcy is not considered unacceptable credit, and a credit exception is not required, when the aforementioned requirements have been met. However, the applicant must obtain written permission from the Bankruptcy Court to enter into a financial obligation with the Agency.

3. Significant Mortgage Delinquency

A foreclosure is a significant mortgage delinquency. Other significant mortgage delinquencies are deeds-in-lieu of foreclosure, short sales, and mortgage charge-offs. These are significant mortgage delinquency events that, when present in the credit report, drastically increase the risk of a loan and must be carefully considered in the loan risk analysis when reviewing the loan application. For any significant mortgage delinquency transaction, the Loan Originator must confirm that the applicant has been completely released from the previous mortgage liability and is not responsible for any deficiency judgement. The following describes the most common significant mortgage delinquency actions reported to the credit bureaus that are used as an alternative to a formal foreclosure because they reduce the time and cost of repossessing a property and borrowers avoid the public notoriety of a foreclosure:

- **Deed-in-lieu of Foreclosure.** In a “deed-in-lieu of foreclosure” transaction the borrower voluntarily transfers the property rights back to the creditor in an exchange for a mortgage cancellation. These transactions are most common when the property subject to the potential foreclosure has positive equity or if the homeowner meets the requirements for financial hardship relief.
- **Short Sale.** Short sale is a term used to describe a sale where the debt owing against a property combined with the costs associated with the sale exceeds the property's market value. Short sales are also known as pre-foreclosure sales because the lender has not completed the foreclosure process but plans to foreclose if the property is not sold by the homeowner under the terms approved by the lien holders. Depending on the short sale agreement, the applicant may still be responsible for the amount that “fell short” as a result of the short sale transaction. The loan deficiency remaining after the sale is typically forgiven; however, this is not always the case.

Paragraph 4.14 Assessing Adverse Credit

- **Mortgage Charge-Off.** A mortgage charge-off is a debt classification used by creditors when they believe a mortgage debt is not collectible. This action does not mean that the debt is no longer valid or that has been forgiven. An applicant with a mortgage charge-off reported on the credit report may still be responsible for the debt.

If the significant mortgage delinquency was due to the applicant's failure to meet financial obligations, the applicant is not eligible for a loan for 36 months from the date the obligation was released. However, if the delinquency was due to extenuating circumstances, the applicant may be eligible for a loan if:

- More than 12 months have elapsed between the date the applicant was released from the mortgage debt and the application date; and,
- The applicant has demonstrated an ability and willingness to meet obligations when due for the 12 months prior to the date of application; and,
- The circumstances leading to the delinquency are properly documented and justified.

Selling a home through a short sale merely because the property value decreased significantly is not an extenuating circumstance.

4. **Agency debts that were debt settled within the past 36 months, or are being considered for debt settlement.**

C. Resolving Collection Accounts

Paying an outstanding account is not, in itself, justification to say the applicant has demonstrated a willingness to meet obligations. Payment of a collection account could deplete the applicant's cash resources that could be used for reserve or closing costs. The Loan Approval Official may determine it is not necessary to pay a collection account if there is evidence that the account does not affect the Agency's first lien position. If there were extenuating circumstances to the adverse credit, the Loan Approval Official may determine that the late payments are not reflective of the applicant's ability to meet financial obligations or manage debts. All extenuating circumstances must be documented on the Credit History Worksheet.

SECTION 4: OTHER ELIGIBILITY REQUIREMENTS

4.15 OWNING A DWELLING

An applicant who owns a dwelling generally is not eligible for a Section 502 loan, except for refinancing assistance, as described in Paragraph 6.5 B. However, if the applicant's dwelling is structurally unsound, functionally inadequate, or too small to accommodate the needs of the household, funds may be provided to improve the existing dwelling or to purchase a new one.

The following are examples where the Agency can assist an applicant in the purchase of a new home provided they meet all other eligibility criteria and the existing property is properly handled (e.g. sold prior to the Agency's loan closing and the proceeds in excess of the program's asset threshold are used for a down payment; the sale of the home is a loan closing condition and a lien is placed against the property so that any future proceeds in excess of the program's asset threshold are used as a principal reduction; and/or any long term debt obligation is considered in the total debt ratio).

- An applicant lives adjacent to an industrial operation. The business's operations result in vibrations that have caused the foundation of the applicant's home to severely shift causing cracks in the home and an unsafe living condition.
- An applicant lives in a two-story dwelling which is not accessible to a household member with a disability.
- An applicant lives in a manufactured home that is not affixed to a permanent foundation.
- An applicant is dealing with an overcrowded situation now that their family has grown (i.e. there are more than two household members per bedroom).

4.16 ABILITY TO OBTAIN OTHER CREDIT

To be eligible, the applicant must be unable to obtain credit from other sources on terms and conditions they can reasonably be expected to fulfill. Due to limited repayment ability, all very low-income applicants and any applicants qualifying for payment assistance are presumed to be unable to obtain credit from other sources. For other applicants, the Loan Approval Official should determine whether the applicant must provide written documentation from another source that they were unable to obtain credit on reasonable terms and conditions. Factors to consider include, but are not limited to, the amount of payment subsidy the applicant may be eligible for, down payment requirements, or fees and other costs, etc.

Applicants must reduce the need for credit by using available non-retirement assets, as described in Section 2. In addition, applicants should be encouraged to obtain a portion of the needed funds in the form of affordable housing products.

4.17 OCCUPYING THE PROPERTY [7 CFR 3550.53(C)]

To be eligible for a Section 502 loan, applicants must agree to personally occupy the dwelling on a permanent basis. On the basis of this requirement, 2 types of applicants require special review.

Active duty military applicants. Because of the probability of transfer, military personnel on active duty should not receive loans without proof that a discharge will be received within a reasonable period of time, usually within 1 year. A military serviceperson who cannot physically reside in a property because they are on active duty will be considered to meet the occupancy requirements if their family will occupy the home.

Student applicants. Due to the probability of moves after graduation, full-time students cannot obtain loans unless they intend to make the home a permanent residence and there are reasonable prospects of securing employment in the area after graduation.

4.18 LEGAL CAPACITY [7 CFR 3550.53(e)]

To be eligible for a loan, the applicant must be considered an adult under State law, and must have the legal capacity to incur the loan obligation. An applicant with a court-appointed guardian or conservator who is empowered to obligate the applicant in real estate matters is eligible for a loan. The Loan Originator should assume that any applicant has the legal capacity to enter into the loan unless there is evidence to the contrary.

4.19 SUSPENSION OR DEBARMENT [7 CFR 3550.53(f)]

Individuals who have been suspended or debarred from participation in Federal programs are not eligible for Agency assistance.

4.20 CITIZENSHIP STATUS [7 CFR 3550.53(b)]

To be eligible for Agency assistance, the applicant must be a U.S. citizen, a U.S. non-citizen national, or a qualified alien and provide acceptable evidence of eligible immigration status. Any applicant who is not a U.S. citizen, a U.S. non-citizen national, or a qualified alien will be denied assistance. Aliens and alien non-citizen nationals must provide acceptable evidence that they are qualified aliens as listed in Attachment 4-D.

The Rural Development has entered into an “Interagency Agreement” with the Department of Homeland Security, U. S. Customs and Immigration Service (USCIS) to allow access to the Systematic Alien Verification for Entitlements (SAVE) database. This program enables Housing Program staff to obtain online immigration status information to determine a non-citizen applicant’s program eligibility. In most cases, SAVE will provide immediate responses concerning the immigration status of an applicant.

4.21 TRUTHFUL APPLICATION

Applicants must provide truthful information when applying for assistance. Any inconsistencies discovered throughout the application process must be addressed. The Loan Originator must obtain sufficient documentation to verify the applicant’s identity.

Documentation will include picture identification (ID), evidence of age, and evidence of the taxpayer’s identification number for each person that will sign the promissory note. A photocopy of these documents shall be placed in the case file. Acceptable forms of identification include a driver’s license, passport, work related ID cards, or similar documents. If photographic ID is not available, the Loan Originator must thoroughly document why it is not available and how identity of the applicant was verified. In addition, if the applicant’s taxpayer identification number is not included on the picture ID, another means of documentation is required to verify the taxpayer’s identification number such as a copy of the social security card, a pay stub, or a bank statement. Applicants who provide false information, or who fail to disclose relevant information, will be denied program assistance.

If Form RD 410-4, Uniform Residential Loan Application, indicates the applicant is a U.S. citizen, no additional due diligence is generally required unless there is a reason to believe the applicant is not a U.S. citizen, such as a Social Security card that reads “work only”. **Always** require evidence if Form RD 410-4 indicates that the applicant is a qualified alien.

Non-citizen nationals are persons born in American Samoa or Swains Island or after the date the U.S. acquired American Samoa or Swains Island, or a person whose parents are U.S. non-citizen nationals. **Always** require evidence of this relatively uncommon status.

SECTION 5: PROCESSING THE CERTIFICATE OF ELIGIBILITY

4.22 DETERMINING REPAYMENT ABILITY [7 CFR3550.53(g)]

The primary consideration in determining whether an applicant can afford to purchase a home is the applicant's repayment income. Repayment income, as described in Paragraph 4.4 H., is the amount of income parties to the note will have available to repay the debt.

However, other household expenses and debts and the availability of payment subsidies also greatly affect an applicant's repayment ability. The Agency bases underwriting decisions on an analysis of the percentage of income the applicant would be required to spend on housing costs and the applicant's Total Debt (TD) if the loan is approved. Using these 2 percentages, called ratios, is a standard practice throughout the lending industry. Borrowers must meet the Agency's standards for both ratios.

Maximum Ratios	
PITI Ratio	
Very low-income applicants	29%
Other applicants	33%
TD Ratio (all applicants)	41%

A. The PITI Ratio

The PITI ratio compares the amount the applicant must spend on housing costs (including Principal on the loan, Interest on the loan, real estate Taxes, and property Insurance) and flood Insurance (as applicable) to the applicant's repayment income. The leveraged loan payment is included in PITI.

Example - Calculating PITI Ratios	
\$360	Principal and Interest payments
\$ 50	Taxes
\$ 10	Flood Insurance
<u>\$ 50</u>	<u>Insurance</u>
\$470	Total for PITI
\$18,000	Annual Repayment Income
\$ 1,500	Monthly Repayment Income (\$18,000 ÷ 12)
PITI Ratio = \$470 ÷ \$1,500 = 31.33%	
Taxes: Must be on full assessed value	

For new construction, the fully assessed tax amount will be used to determine repayment ability. Very low-income applicants are considered to have repayment ability if they do not have to pay more than 29 percent of Repayment income for PITI expenses. Applicants with incomes above the very low-income limit are considered to have repayment ability if they do not have to pay more than 33 percent of repayment income for PITI expenses.

B. The TD Ratio**1. Maximum TD Ratio**

The TD ratio compares the applicant's total debt to repayment income. Applicants, regardless of income, are considered to have repayment ability when they do not have to spend more than 41 percent of repayment income on total debt.

2. Establishing TD

Total debt includes PITI, all long-term obligations, and short term-obligations that have a significant impact on repayment ability. The following items should be counted:

- PITI -- Principal, Interest, Taxes, and Insurance (including leverage loan payments).
- Regular assessments, such as homeowner association or condominium assessments.
- Long-term installment obligations with more than 6 months repayment remaining, including loans, alimony, and child support but excluding revolving accounts. Funds borrowed from a retirement account are excluded since the applicant is repaying a loan to themselves. In the event an applicant does not repay the loan as agreed, the debt is reported as taxable income during that tax year, but will be treated as sporadic income.
- Payments that come due in the next 12 months.
- Deferred debt regardless of the length of the deferment period. If the credit report does not reflect the anticipated monthly payment due at the end of deferment, the Loan Originator should obtain verification of the monthly payment directly from the creditor or request a copy of the loan agreement from the applicant.

- Student loan payments. The Loan Originator must use the actual monthly payment under the existing repayment plan (as verified by the lender) if (1) the loan is in repayment status, (2) the applicant has a credit score of 640 or higher, (3) the applicant has no significant delinquency as outlined in Paragraph 4.14 B., and (4) the applicant's payment shock can be measured and is not more than 100%. If all four conditions are met and the applicant who is responsible for the student loan has, for example, a \$0 monthly payment because they are on an income-driven repayment plan, there will be no student loan payment considered in the TD ratio. The State Office may grant a case-by-case waiver to any condition if the overall risk assessment on the application warrants it and is well documented in the casefile. When the above does not apply (e.g. because the loan is in deferment or forbearance), the higher of the monthly student loan payment listed on the credit report or one-half percent (.50%) of the student loan balance must be used in the TD ratio.
- Short-term obligations that are considered to have a significant impact on repayment ability, such as large medical bills and car or other credit payments.
- The minimum monthly payment required for revolving credit card debts using the following applicable approach: 1) Use \$0 if the credit report indicates no outstanding balance. 2) Use the minimum monthly payment as reflected on the credit report if the credit report indicates an outstanding balance and a minimum monthly payment. 3) Use 5 percent of the outstanding balance if the credit report indicates an outstanding balance but no specific minimum monthly payment or obtain a copy of the most recent billing statement that reflects the actual monthly payment and use that amount if lower. 4) If the credit report indicates an outstanding balance but the applicant indicates that it will be (or has been) paid in full, a monthly payment will not be used provided the Loan Originator obtains documentation of payment in full.

Paragraph 4.22 Determining Repayment Ability [7 CFR 3550.53(g)]

- Debt from which the applicant has not been released need not be counted if the applicant can demonstrate that another party has assumed responsibility for the debt. For example, if a divorced applicant can show that the former spouse has made the last 12 months of mortgage payments, the mortgage payments on that property need not be counted when establishing total debt.

Example - Calculating TD Ratios	
\$300	Principal and Interest payments
\$ 60	Taxes
<u>\$ 50</u>	<u>Insurance</u>
\$410	PITI Subtotal
\$300	Car payment
<u>\$100</u>	<u>Payments on credit card debt</u>
\$810	Total Debt
\$25,000	Annual Repayment Income
\$ 2,083	Monthly Repayment Income (\$25,000 ÷ 12)
TD Ratio = \$810 ÷ \$2,083 = 38.89%	

- Contingent liabilities. If the applicant is a cosigner on a loan or any other obligation, the debt must be included in the TD ratio. The Loan Originator should never omit a credit report liability with a balance greater than zero from the loan application unless strong supporting documentation is provided to evidence that the primary signer has been making on time payments during the previous 12 months.
- If the applicant recently obtained additional credit, verify the terms of the new obligation and include the monthly payment in the total debt ratio.

C. Determining the Maximum Loan Amount

The Loan Originator enters information provided by the applicant about household size, income and debts, and general program information, including the Maximum loan limit and median income for the area. Because a specific dwelling has not yet been identified, estimates can be used for taxes, insurance, and purchase-related costs. Once this information is entered, UniFi:

- Computes the PITI and TD ratios;
- Determines whether the applicant is eligible for payment subsidy, and how much payment subsidy the applicant would receive; and

- Computes the maximum loan amount for which the applicant qualifies, first using standard loan terms and then using any adjusted terms for which the applicant may qualify. Once a property is identified, if the adjusted term is not necessary than the loan should be closed using the standard loan term.
- The Loan Originator will print out and sign the estimated UniFi Eligibility Summary and place it in position 3 of the applicant case file.

D. Using Market Data to Interpret UniFi Results

Each Field Office should collect and maintain sales information for each market area in its jurisdiction. By comparing the results of an applicant's maximum loan calculation to market data, Loan Originators can provide appropriate counseling for applicants and identify candidates for 100 percent private financing or leveraged loans. MLS and comparable sales data collected through appraisals are valuable sources of market information.

4.23 RESERVED

4.24 OTHER CONSIDERATIONS RELATED TO MAXIMUM LOANAMOUNTS

The maximum loan amount that the applicant qualifies for as shown on the Eligibility Summary generated from UniFi may be too low to enable the applicant to purchase a property that meets program standards. Exhibit 4-6 outlines the procedure on how to handle this situation. Conversely, the maximum loan amount and the resulting payment may be too high; setting the stage for payment shock.

This paragraph provides guidance on additional financial resources and compensating factors that the Loan Originator should consider to improve the applicant's purchasing ability only and concludes with a discussion on payment shock.

Exhibit 4-6

Establishing an Area’s Minimum Loan Amount

Each Field Office should set, following the methodology provided by their State Office, a minimum loan amount in each area that is “clearly less than” the amount needed to purchase a decent, safe, and sanitary dwelling in that area. For example, if a county’s area loan limit is \$140,000, but based on an examination of properties financed by the Agency in that county during the last 12 months shows that the lowest amount of financing needed to purchase a decent, safe, and sanitary home was \$75,000, a minimum loan amount of \$60,000 may be set. Consideration should be made for properties with a purchase price below the minimum loan amount parameters when, if repaired (using loan funds or other means), would provide a decent, safe, and sanitary dwelling.

If the applicant does not qualify for the minimum loan amount and the Loan Originator has concluded that compensating factors are not applicable and adding a party to the application is not viable, Handbook Letter 15 (3550), Standardized Adverse Decision Letter, should be sent to the applicant along with Attachment 1-B. The letter should state that the applicant’s qualifying loan amount (be sure to enter that amount) is not sufficient to meet the program’s purpose as outlined

in the 7 CFR Part 3550, Paragraph 3550.9

A. Using Compensating Factors

Exceptions to the standard method of determining repayment ability may be made if there is information -- called compensating factors -- that indicates the prospective borrower may be able to make larger regular loan payments than the ratio analysis suggests. Compensating factors must be clearly documented in the applicant’s case file.

All compensating factors must be approved by the next level supervisor. To obtain approval, the Loan Originator must prepare a written request that supports the use of compensating factors and the higher amount requested. The Loan Originator should forward the request and case file to the next level supervisor for approval.

Some of the compensating factors that can affect the amount of debt an applicant is permitted to have are discussed below:

1. Payment History

The PITI and TD ratio analyses assume that households are able to contribute a specified percentage of income toward housing costs. However, if an applicant has historically paid a greater share of income for housing with the same income and debt level, a higher payment may be approved. Utility and maintenance costs must be considered as part of this analysis.

1. Savings History

Applicants with accumulated savings and a savings history that shows a capacity to set aside a larger-than-average portion of income may be approved for a higher payment.

2. Job Prospects

If an applicant has recently entered a profession in which they can expect significant pay increases, the Loan Originator may base repayment income on the anticipated future earnings of that applicant.

Similarly, if overtime income is available to increase the applicant's income, the Loan Originator may project the household's income with extra overtime included.

3. Homes Constructed Under Specific Energy Efficiency Programs

A new home built to exceed the prevailing International Energy Conservation Code is more energy efficient, which significantly lowers the homeowner's utility costs. The lower utility costs associated with these energy efficient homes indicate that a prospective borrower may be able to make larger loan payments than the ratio analysis suggests.

Given their resulting energy efficiency savings of up to 30 percent relative to typical new homes, as well as their progressive and routinely updated building standards, new homes constructed under the following national programs may be considered as a compensating factor (when approved by the next level supervisor):

- Energy Star for New Homes under the U.S. Environmental Protection Agency (https://www.energystar.gov/index.cfm?c=new_homes.hm_index)
- Zero Energy Ready Home under the U.S. Department of Energy (<http://energy.gov/eere/buildings/zero-energy-ready-home>)
- Leadership in Energy and Environmental Design (LEED) for Homes under the U.S. Green Building Council (<http://www.usgbc.org/leed/rating-systems/residential>)
- Home Innovation's "National Green Building Standard" under the National Association of Home Builders (<http://www.nahb.org/en/research/nahb-priorities/green-building-remodeling-and-development/icc-700-national-green-building-standard.aspx>)

Example - Using Savings History As A Compensating Factor

An applicant is currently paying \$400 per month in rent and putting \$175 per month in a savings account. Utility costs should be similar to those the applicant is currently paying, but maintenance costs will be about \$50 per month higher. According to ratios, the applicant's repayment ability is \$500 per month. However, since the applicant is currently using a total of \$575 per month for a combination of rent and savings, a loan that requires a monthly payment of up to \$525 (\$575-\$50) may be considered.

- Green Communities under the Enterprise Community Partners (<http://www.enterprisecommunity.com/solutions-and-innovation/enterprise-green-communities>)
- Passive House under the Passive House Institute US (<http://www.phius.org/home-page>)
- Living Building Challenge under Insurance Institute for Business and Home Safety (<http://living-future.org/lbc>)

When a new home to be constructed under a specific energy efficiency program will be used as a compensating factor, the qualifying ratios may exceed the established thresholds by up to two percentage points provided the Field Office obtains reasonable documentation that the property will be built to certification standards through one of the above programs. Once construction is complete, the Field Office must obtain verification that the property is certified through one of the above programs.

B. Adding Additional Parties or Cosigners to the Note

Additional financial resources may be added by adding additional parties to the note or locating cosigners.

1. Additional Parties to the Note

Additional parties to the note must agree to occupy the dwelling and must qualify as borrowers, as described in this chapter. Counting the income of the additional parties increases repayment income.

2. Cosigners

Individuals who will not reside in the dwelling, but who are willing to be responsible for the debt may be cosigners to the note. To supplement the applicant's purchasing power, a cosigner must demonstrate an ability and willingness to meet debt obligations as outlined in Section 3 and possess a TD ratio that does not exceed 41 percent. The cosigner's TD calculation would include the applicant's full note payment through Rural Development, the applicant's leveraged loan payments (if applicable), the applicant's escrow payment, and all of the cosigner's long-term obligations (including their mortgage) as well as their short-term obligations that have a significant impact on repayment ability.

Again, cosigners can only be used to improve the applicant's purchasing power. Cosigners cannot be used to compensate for an applicant's unacceptable credit history

.Paragraph 4.24 Other Considerations Related to Maximum Loan Amounts

C. Payment Shock

Payment shock represents the applicant's projected increase in housing expenses. The following formula is used to calculate payment shock as a percentage:

$$\text{Payment shock} = (\text{Total proposed principal, interest, taxes, and insurance payment after subsidy} / \text{current housing expense excluding utilities}) - 1$$

By way of example, presume that the Rural Development payment after subsidy is \$550, the leveraged lender's payment is \$250, taxes and insurance are approximately \$120, and the applicant's current rent is \$400. In this scenario, the applicant's payment shock is 130 percent:

$$(\$550 + 250 + 120) / 400 = 2.30; 2.30 - 1 = 1.30 = 130 \text{ percent}$$

In cases where payment shock is greater than 100 percent or could not be measured since the applicant does not currently have any housing expenses, no additional risk layering (i.e. adverse credit waivers, use of compensating factors, etc.) should be allowed without strong justification. Multiple layers of risk may be justified if the applicant has an excellent credit history reflecting timely repayment of credit obligations or a credit score of 640 or higher on their TMCR. Perhaps the applicant has demonstrated a careful attitude toward the use of credit and an ability to accumulate savings or a stable employment history over the past two years, demonstrating a dependable income stream. Regardless of the justification, the Loan Approval Official must thoroughly document their rationale for allowing multiple layers of risk in the running case record.

In addition, the Loan Approval Official must counsel the applicant on this occurrence and emphasize that purchasing a home at their maximum qualification amount may strain their budget and not allow for unexpected expenses. Discuss the additional costs associated with homeownership (taxes, insurance, utilities, maintenance, etc.) and document the counseling effort in the running case record.

4.25 ISSUING THE CERTIFICATE OF ELIGIBILITY

If the Loan Originator determines that an applicant is eligible for a loan, the decision will be documented in the form of a written narrative in the running record of the applicant case file.

Paragraph 4.25 Issuing The Certificate Of Eligibility

When funds are available, eligible applicants who have not yet located properties or, who own their building site but have not provided a construction package, should be issued Form RD 1944-59, Certificate of Eligibility. First-time homebuyers must be informed that by accepting a Certificate of Eligibility they agree to provide documentation of completion of an approved homeownership education course prior to entering into a contract to purchase or construct a home for maximum benefit (or shortly thereafter). The Loan Originator must note on the running record that they informed the Applicant of the homeownership education requirement. Applicants who are not seeking leveraged loans should be informed that the certificate is valid for a period of 45 days. Applicants seeking leveraged loans should be informed that the certificate is valid for a period of 60 days. Within that time the applicant must provide sufficient information to enable the Agency to conduct an appraisal of the property to be financed. COE will be honored even if loan limits change before the expiration of the commitment. Up to two 30 day extensions may be granted for applicants who demonstrate that they have been actively looking for a property. Area loan limits changes must be considered on any COE extension and the applicant needs to be checked against the DNP portal. If the applicant has already submitted a contract for a property, Form RD 1944-59 will not be issued. If an applicant's sales contract falls through, a new Form RD 1944-59, good for 45 days or 60 days, as applicable, should be issued. An application is no longer considered active and will be withdrawn when the certificate of eligibility has expired and all authorized extensions have been exhausted.

Applicants for a self-help loan will be issued Handbook Letter 16 (3550), Eligibility of Self-Help Applicants. UniFi may indicate the applicant qualifies for a higher loan amount than the actual cost of building a modest home using the self-help method. The dollar amount to be inserted in the eligibility letter will be based on the following:

- A.** The average cost of the most recent group of homes built in the area by the self-help method with consideration given to known price increases or decreases in materials, labor, land and/or time of construction (unless the applicant qualifies for less); or
- B.** The average cost of the homes that are to be built by the self-help method as determined by detailed cost estimates of the plans and specifications prepared by the self-help grant organization, in consultation with the local Rural Development staff and/or Technical and Management Assistant (T&MA) contractor. Consideration will also be given to known price increases or decreases in material, labor and/or time of construction (unless the applicant qualifies for less).

If the Loan Originator determines that a loan applicant cannot be determined eligible, Handbook Letter 15 (3550), Standardized Adverse Decision Letter, should be sent to the applicant. The form explains why the loan is not approvable. The appropriate attachment from Chapter 1 should be attached to provide the applicable review, mediation, and appeal rights.

4.26 APPLICANT ORIENTATION

Applicants should be well-informed of Agency requirements and borrower responsibilities. After an applicant is determined eligible, the Loan Originator should provide them with Form RD 3550-23, Applicant Orientation Guide. The Loan Originator should instruct the applicant to watch the Agency's Applicant Orientation Guide video on YouTube and sign and return Form RD 3550-23 within 15 days.

ATTACHMENT 4-A
WORKSHEET FOR COMPUTING INCOME

To access the worksheet and a tutorial on the worksheet, visit the [Forms & Resources](#) page for the Single Family Housing Direct Home Loans.

ATTACHMENT 4-B

[RESERVED]

ATTACHMENT 4-C

REVIEWING A SELF-EMPLOYED APPLICANT'S INCOME AND DEBT LOAD

The purpose of this attachment is to provide guidance on how to properly analyze a self-employed applicant's income.

An applicant who has a 25% or greater ownership interest in a business is considered "self-employed" and a cash flow analysis of the applicant's income is required. The legal structure of a business determines the way business income or loss is reported to the IRS. Loan Originators must understand the applicant's business structure to effectively document, calculate, and analyze annual and repayment income.

Step 1: Understand the Business Structures

The legal structure of a business determines the way business income or loss is reported to the IRS. Loan Originators must understand the applicant's business structure to effectively document, calculate, and analyze annual and repayment income. The following are the most common business structures for self-employed applicants.

- a. Sole Proprietorship: The business structure most often encountered is a sole proprietorship (be it a business, farming, or profession). A sole proprietor is someone who owns an unincorporated business by himself or herself and has unlimited personal liability for all debts of the business. Business income or loss is folded into the individual owner's tax return.
- b. Partnership: A partnership is an arrangement between two or more individuals who have put together their assets and/or skills to operate a business and who will share, as stated in the agreement, profit and losses.
- c. Limited Liability Corporation (LLC): A LLC is a legal business structure designed to offer its members (owners) the tax efficiencies of a partnership and the limited liability advantages of a corporation. Although the member-owners generally have limited liability, there may be some instances in which they are required to personally guarantee some of the loans that the limited liability corporation obtains.
- d. S-Corporation: An S Corp is a legal entity that has a limited number of stockholders (up to 75) and elects not to be taxed as a regular corporation. The small business gains and losses are passed on to the stockholders in proportion to each stockholder's percentage of business ownership and it is taxed at their individual tax rates. This is another commonly encountered type of business.

Step 2: Document Self-Employment Income:

Since self-employment income reporting may vary depending on the business structure, and can be quite complex, the Loan Originator must obtain a complete copy of the individual and business tax returns. A self-employed applicant must submit signed copies of his/her **last two** complete IRS Form 1040, U.S. Individual Income Tax Returns (IRS Form 1040) with IRS Form W-2 attached, if the applicant also has wage income, along with the appropriate IRS forms and schedules as noted in the table below. If the business is a corporation, S corporation or partnership, a complete, signed copy of the business income tax return for the last 2 years, with all applicable schedules, is also required. For electronically filed tax returns, it is not necessary to require the applicant(s) to manually sign the return for application purposes if there is sufficient documentation the applicant has signed the return electronically (i.e. use of Self-Select PIN for Free File Fillable Forms, Electronic Filing PIN, or authorized E-File Provider). The following table provides general guidance regarding the minimum documentation required for self-employed applicants. (Please note that the place the information is found is based on a tax return from a certain year and may be different)

Form of Business or Commission Income	Individual Profit & Loss will be reported in...	Business Profit or Loss will be reported in...
Sole Proprietorship	Form 1040, Line 12: Business Income or (loss) Schedule C (Form 1040), Profit or Loss from Business	Form 1040, Schedule C: Profit or Loss from Business
Partnerships and Limited Liability Corporations	Form 1040, Line 17: Rental real estate, royalties, partnerships, S corporations, trusts, etc. Schedule E (Form 1040), Supplemental Income and Loss	IRS Form 1065, U.S. Partnership Return of Income Schedule K-1 (Form 1065), Partner's Share of Income, Deductions, Credits, etc.
S Corporations	Form 1040, Line 17: Rental real estate, royalties, partnerships, S corporations, trusts, etc. Schedule E (Form 1040), Supplemental Income and Loss	IRS Form 1120S, U.S. Income Tax Return for an "S" Corporation (IRS Form 1120S) Schedule K-1 (Form 1120S), Shareholder's Share of Income, Deductions, Credits, etc.

The applicant must also submit current documentation of income and expenses using the verification of business expenses form located in Appendix 2. If the applicant cannot provide copies of the actual returns filed, they can directly request, obtain, and provide a copy of their tax return transcripts (using IRS Form 4506-T, Request for Transcript of Tax Return).

If an applicant has been self-employed between one and two years, the applicant must demonstrate and the Loan Originator must document two years of previous successful employment in a similar line of work. The applicant's individual tax returns must reflect a history of receiving income at the same (or greater) level in a field that provides the same products or services as the current business.

The income for an applicant that has been self-employed for less than one year is not to be considered stable for repayment purposes.

Step 3: Calculate Self-Employment Income:

Individuals and businesses complete tax forms to calculate taxable income or loss. Tax forms by themselves do not tell lenders how much qualifying income an applicant has for a mortgage. To calculate self-employment income, it is necessary to make a cash flow analysis of the applicant's income.

The Loan Originator needs to make certain adjustments to the income (or loss) reported in IRS Form 1040 in order to have an accurate picture of the applicant's cash flow. The IRS allows self-employed applicants and business owners to make non-cash deductions to reduce taxable income. Depreciation is the classic example of how a non-cash deduction reduces taxable income but increases the applicant's income for loan qualification purposes. The Loan Originator must carefully review all tax forms to identify non-cash deductions (increasing income) and/or additional expenses (reducing income). The following are the most common adjustments to the net profit/income reported in the applicable tax forms/schedules:

Add Back	Subtract
Depreciation	Employee Business Expenses
Depletion	Meals and Entertainment Exclusion
Nonrecurring Losses	Nonrecurring income (generally reported as “Other Income”)
Amortization / Causality Loss (if non recurring)	Nonrecurring Capital Loss
Recurring Capital Gains	

Step 4: Analyze the Self-Employment Income:

When analyzing self-employment income the Loan Originator must perform a detailed review of the applicant’s individual and business tax returns to confirm that the income is stable and dependable (likely to continue).

In general, income from self-employment is considered stable if the applicant has been self-employed for two or more years. Because self-employment income may change each year, the Loan Originator should always develop an average monthly income by using at least two full years of the applicant’s self-employment income. An average takes in consideration typical market fluctuations, thus better predicting the applicant’s long-term earning ability.

Dependable income refers to the likelihood of continuity of the income. Making this determination requires the Loan Originator to predict future income. The Loan Originator should look at income trends and the stability of the income source. Any specific indication of an upcoming event that might change the applicant’s employment or income should be addressed in the loan file and considered in the underwriting decision. For example, if the most recent tax return shows an income considerable higher than reported in the previous tax year, the Loan Originator should investigate further to determine whether the higher income is due to business expansion or a onetime event unlikely to reoccur and continue. Income from a nonrecurring transaction should be excluded from the income calculations. Similarly, a nonrecurring loss should not be deducted from the income calculation.

Other Types of Income Needing a Cash Flow Analysis:

Special Attention to Commission / Contract Income and Other Business Expenses

An applicant that receives 25% or more of the annual income in commission, bonuses or tips most likely engages in business activities needing a cash flow analysis. This income may be reported in the IRS Form W-2 or IRS Form 1099 (e.g. real estate agents/contract employees). Non-reimbursed business expenses reported in IRS Form 2106, Employee Business Expenses, should be deducted from the income reported on the applicant's tax return.

Commission, bonuses and, tips income may be considered stable if the applicant has received this income for the past two years. After making the cash flow analysis, the Loan Originator should develop a two year average to make an income determination.

Summary

Income from self-employment may be unpredictable, subject to market/economic fluctuations. Due to the inherent risk of self-employment income, the Loan Originator must consider internal and external economic factors when analyzing self-employment income.

When an applicant is self-employed, or has income needing a cash flow analysis, do not use the total income reported on IRS Form 1040, IRS Form W-2, or IRS Form 1099. Instead, analyze each income line item individually and make the necessary adjustments to the total income/profit. If the Loan Originator fails to perform a detailed review and analysis of the borrower's tax return both annual and repayment incomes will be miscalculated.

ATTACHMENT 4-D

REVIEWING DOCUMENTATION FOR CITIZENSHIP STATUS

The purpose of this attachment is to provide guidance on acceptable evidence that a non-U.S. citizen is a qualified alien and to provide guidance on the use of the Systematic Alien Verification for Entitlements (SAVE) database maintained by the Department of Homeland Security (DHS).

A “qualified alien” is defined under the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) (8 U.S.C. Section 1641) as:

- 1) An alien who is lawfully admitted for permanent residence under the Immigration and Nationality Act;
- 2) An alien who is granted asylum under Section 208 of such Act;
- 3) A refugee who is admitted to the United States under Section 207 of such Act;
- 4) An alien who is paroled into the United States under Section 212(d)(5) of such Act for a period of at least 1 year;
- 5) An alien whose deportation is being withheld under Section 243(h) of such Act; or
- 6) An alien who is granted conditional entry pursuant to Section 203(a)(7) of such Act as in effect prior to April 1, 1980;
- 7) An alien who is a Cuban/Haitian Entrant as defined by Section 501(e) of the Refugee Education Assistance Act of 1980; or
- 8) An alien who has been battered or subjected to extreme cruelty under Section 431 of the Immigration and Nationality Act (INA).

Native Americans covered by the Jay Treaty of 1794 and born in Canada may also be eligible as lawfully admitted for permanent residence if they meet the requirements of 8 U.S.C. Section 1359. Since the Agency might not be able to verify their status through SAVE, the Native American should provide **all** of the documentation listed below.

- ❖ A letter from their Native American tribe stating that the alien has at least 50 percent Native American or Aboriginal blood (also referred to as the blood quantum);
- ❖ Their Canadian “Certificate of Indian Status Card” with a red stripe along the top;
- ❖ Their birth certificate;
- ❖ If an Haudenosaunee, their Red I.D. Card;
- ❖ If an Inuit, an Inuit enrollment card from one of the regional Inuit lands claim agreements;
- ❖ Their Social Security Card issued by the U.S. Social Security Administration; and
- ❖ Their Canadian or U.S. driver license.

SAVE System Access:

Rural Development has entered into an “Interagency Agreement” with DHS’s United States Citizenship and Immigration Service (USCIS) to allow access to the SAVE database. This database enables staff to obtain immigration status information to assist in determining a non-citizen applicant’s program eligibility. In most cases, SAVE will provide an immediate response concerning the immigration status of an applicant.

The Loan Originator must secure proof of identity and evidence that non-citizens who apply for program assistance are qualified aliens. In all cases, non-citizens legally admitted into the United States will have an Alien Identification Number. In cases where a number is not available or known, the applicant should contact the USCIS. (There are cases where an alien has been legally in the U.S. for a period of time and DHS has supplied them with a number, but the alien did not receive or has misplaced the number.) The Loan Originator should obtain the non-citizen’s Alien Identification Number and submit it to SAVE to obtain the applicant’s eligibility status based on the alien’s Class of Admission (COA).

Each State Office should have one person that administers accesses to SAVE. This person will have “supervisor” access which enables them to establish other SAVE supervisors and users within their state. Before requesting a verification, new users should complete the SAVE tutorial available through the site.

After logging into the system, the Loan Originator will enter the applicant’s Alien Identification Number (9 digits) into the “Alien Number” field, select the program for which the alien is seeking a benefit, and submit the information for processing. **NOTE: Only enter the Alien Identification Number into SAVE.** Social Security numbers, driver’s license numbers, or any other number other than an Alien Identification Number **will not** yield a valid result.

U.S. Citizenship and Immigration Services
Verification Information System Logon

You have been successfully logged out.

Please login:

User ID:

Password:

* = required entry

WARNING - This system is for the use of authorized users only. Individuals using this computer system without authority, or in excess of their authority, are subject to having all of their activities on this system monitored and recorded by system personnel. In the course of monitoring individuals improperly using this system, or in the course of system maintenance, the activities of authorized users may also be monitored. Anyone using this system expressly consents to such monitoring and is advised that if such monitoring reveals possible evidence of criminal activity, system personnel may provide the evidence of such monitoring to law enforcement officials.

U.S. Citizenship and Immigration Services
WEB-1 Initial Verification

On-Line Resources | Tutorial | Return to Home | About | Exit

Case Administration
Initial Verification
Additional Verification
View Cases
User Administration
Change Password
Change Profile
Reports
View Reports

Enter Initial Verification Information

Alien Number: *

Benefits: (select one or more) *

- USDA Housing Grants
- USDA Housing Loans
- USDA Loan Guarantees
- USDA Rent Assistance

* = required entry

Agency personnel should enter the Alien Number and select which benefit the alien is applying for.

The system will normally respond within seconds with the applicant's eligibility and a COA code. In most cases SAVE will give a "System Response" indicating the alien's status.

The screenshot shows a web interface for Case Verification Number 26. It is divided into two main sections: 'Initial Verification' and 'Initial Verification Results'. A red arrow points to the 'System Response' field in the results section, which contains the text 'LAWFUL PERMANENT RESIDENT-EMPLOYMENT AUTHORIZED'. A legend at the bottom indicates that an asterisk (*) denotes a required entry.

Initial Verification	
Alien Number:	02
I-94 Number:	
Card Number:	MS
Naturalization Number:	
Visa Number:	
Passport Number:	
Document Type:	I-551
Last Name:	
Middle Name:	
Initiated By:	F
Benefits:	USDA Housing Loans
Citizenship Cert. Number:	
SEVIS ID:	
Document Exp. Date:	10/27/2018
Other Document Desc:	
First Name:	Gloria
Date of Birth:	12/17/1952
Initiated On:	07/24/2012

Initial Verification Results	
Last Name:	
Middle Name:	
Country:	MEXIC - Mexico
Date of Entry:	10/22/2008
EAD Expiration Date:	
System Response:	LAWFUL PERMANENT RESIDENT-EMPLOYMENT AUTHORIZED
First Name:	GLORIA
COA Code:	F26
Date of Birth:	12/17/1952
Date Admitted To:	INDEFINITE

[Print Case Details](#)

* = required entry

The applicant is eligible for program assistance if the response is “LAWFUL PERMANENT RESIDENT – EMPLOYMENT AUTHORIZED”. Other acceptable responses include, but are not limited to “ASYLLEE”, “PAROLEE”, “REFUGEE”, and “USC” (UNITED STATES CITIZEN).

The applicant is not eligible for program assistance if the response is “TEMPORARY RESIDENT – TEMPORARY EMPLOYMENT AUTHORIZED”.

If the response is “INSTITUTE ADDITIONAL VERIFICATION”, the system was unable to determine the alien’s status.

Online Resources Download Tutorial Return to Home Case Verification Number: [REDACTED]	
Initial Verification	
Alien Number: [REDACTED]	Benefits: USDA Housing Loans USDA Housing Grants USDA Loan Guarantees
I-94 Number: [REDACTED]	
Card Number: [REDACTED]	
Naturalization Number: [REDACTED]	Citizenship Cert. Number: [REDACTED]
Visa Number: [REDACTED]	SEVIS ID: [REDACTED]
Passport Number: [REDACTED]	Document Exp. Date: 07/07/2012
Country of Issuance: [REDACTED]	
Document Type: I-766	Other Document Desc: [REDACTED]
Last Name: [REDACTED]	First Name: [REDACTED]
Middle Name: [REDACTED]	Date of Birth: [REDACTED]
Initiated By: [REDACTED]'S	Initiated On: [REDACTED]
Initial Verification Results	
Last Name: [REDACTED]	First Name: [REDACTED]
Middle Name: [REDACTED]	COA Code: [REDACTED]
Country: [REDACTED]	Date of Birth: [REDACTED]
Date of Entry: [REDACTED]	Date Admitted To: [REDACTED]
EAD Expiration Date: [REDACTED]	
System Response: INSTITUTE ADDITIONAL VERIFICATION	
Additional Verification	

SAVE is asking the Agency user to supply additional information for a second step process. Agency staff should click on the "Request Additional Verification" button, follow the instructions, and reply via the SAVE site within three to five days. Agency staff must return to their case verification screen to view the system response. In the event that SAVE is unable to determine a COA code, the system will respond "submit copies of documentation".

Case Verification Number: 2C_ L		Online Resources	Download Tutorial	Return to Home	Con
Initial Verification					
Alien Number:	C	Benefits:	USDA Housing Loans		
I-94 Number:			USDA Housing Grants		
Card Number:			USDA Loan Guarantees		
Naturalization Number:		Citizenship Cert. Number:			
Visa Number:		SEVIS ID:			
Passport Number:		Document Exp. Date:	07/01/2012		
Country of Issuance:		Other Document Desc:			
Document Type:	I-766	First Name:			
Last Name:		Date of Birth:			
Middle Name:		Initiated On:	12/21/2012		
Initiated By:					
Initial Verification Results					
Last Name:		First Name:			
Middle Name:		COA Code:			
Country:		Date of Birth:			
Date of Entry:		Date Admitted To:			
EAD Expiration Date:					
System Response:	INSTITUTE ADDITIONAL VERIFICATION				
Additional Verification					
User Case Number:		A.K.A.:			
I-94 Number:		Country of Issuance:			
Passport Number:		Initiated On:	12/21/2012		
Special Comments:					
Initiated By:					
Additional Verification Results					
DHS Response:	Resubmit Doc (Need copy original)		Expires On:		
COA Code:		Date Admitted To:			
IISCTS Benefits:		Response Date:	12/26/2012		
Revocation Date:					

If this is the case, the Agency staff will complete the CIS Form 845 (prefilled by SAVE) from the verification screen and electronically submit the form and scanned copies of all immigration documentation (front and back) provided by the applicant. The USCIS personnel have three to five business days from receipt of the documents to reply. The reply will be via the case verification screen in the SAVE program so Agency staff must return and check for the reply.