

RD AN No. 4439 (1980-D)  
May 7, 2009

TO: State Directors  
Rural Development

ATTENTION: Rural Housing Program Directors,  
Guaranteed Rural Housing Coordinators,  
Area Directors and Area Specialists

FROM: James C. Alsop (*Signed by James C. Alsop*)  
Acting Administrator  
Housing and Community Facilities Programs

SUBJECT: Single Family Housing Guaranteed Loan Program  
Identifying Red Flags  
Guaranteed Underwriting System Loans

**PURPOSE/INTENDED OUTCOME:**

The purpose of this Administrative Notice is to provide guidance on potential data entry errors or “Red Flags” present in the Agency review of loan files submitted by approved lenders through the Guaranteed Underwriting System (GUS).

**COMPARISON WITH PREVIOUS AN:**

There is no previous AN issued.

**EXPIRATION DATE:**  
May 31, 2010

**FILING INSTRUCTIONS:**  
Preceding RD Instruction 1980-D

## **BACKGROUND:**

The USDA Rural Development established the Guaranteed Underwriting System (GUS) to ensure accurate underwriting processes, consistent loan decisions, and to assist in loan portfolio management. GUS considers mortgage loan application data entered by the approved lender, credit repository data, and property information to evaluate a potential borrower's ability to meet a proposed mortgage obligation. GUS evaluates select components in a mortgage loan application and provides an underwriting recommendation in regards to credit, capacity, collateral, property, income, borrower, and loan eligibility.

Approved lenders are responsible for verifying that all data entered into GUS for an underwriting recommendation is accurate and supported with documentation in the permanent loan file. Lenders must also certify to the Agency that the supporting documentation for all data entered is retained in the permanent origination case file. The underwriting recommendation is only as accurate as the data entered by the lender. GUS loan reviews have revealed data entry errors that may pose risks to the loan file or that may contribute to inaccurate underwriting recommendations. These data entry errors are referred to as "red flags." GUS loan files that exhibit red flags will warrant further review by the Agency before a Conditional Commitment for Loan Note Guarantee can be issued.

## **IMPLEMENTATION RESPONSIBILITIES:**

The Agency must be aware of red flags when reviewing loan submissions from approved lenders. Evidence of red flags present in the application requires the Agency to perform a more thorough review of the loan file. GUS underwriting recommendations of "Refer" and "Refer with Caution" currently require a full documentation file be submitted to Rural Development. Therefore, the Agency will have all supporting documentation available to complete a review. GUS underwriting recommendations of "Accept" currently require three documents to be submitted to Rural Development: Form RD 1980-21, an Appraisal Report, and a Flood Determination.

GUS does not return an automatic message when potential red flag(s) may be present. The attached "GUS Potential Red Flags" matrix has been developed as an effort to further educate the Agency and approved lender to ensure the quality of the loan application data submitted. It is a valuable resource to assist in identifying red flags and provides a recommended approach when potential red flags are present. **The Agency may request supporting documentation necessary from the approved lender for GUS loan files that receive an "Accept" underwriting recommendation and exhibit red flags, in order to complete a loan file review.**

In addition to the matrix, the Agency has developed, and will include in the “Employee User Guide for GUS,” a comprehensive approach to reviewing a GUS file. GUS loan messages and their corresponding location in the GUS “Underwriting Findings Report” will be detailed. The “Employee User Guide for GUS” is posted to the Agency’s internal website – SharePoint:

<https://rd.sc.egov.usda.gov/teamrd/hcfc/sfh/Single%20Family%20Housing%20Information/Forms/AllItems1.aspx>.

### **ENSURING QUALITY UNDERWRITING**

The approved lender is responsible for the integrity of the data used to obtain an underwriting recommendation. Data entered in GUS must correspond to documentation retained in the lender’s permanent loan case file. Upon submission to the Agency, the approved lender certifies that all information submitted is true, complete, and accurate.

Approved lenders are reminded that GUS is intended to compliment and not replace the judgment of experienced underwriters. A GUS decision is **not** the basis for granting or denying credit. GUS is not a replacement for a lending decision by the approved lender.

Questions concerning this AN should be addressed to Kristina Zehr at (309) 452-0830, ext. 111, or Debbie Terrell at (918) 534-3254. Their respective email addresses are [kristina.zehr@wdc.usda.gov](mailto:kristina.zehr@wdc.usda.gov) and [debra.terrell@wdc.usda.gov](mailto:debra.terrell@wdc.usda.gov).

Attachment



## Guaranteed Underwriting System (GUS) Potential Red Flags

This matrix is designed to assist Rural Development and Approved Lenders to detect red flags. The appearance of the following red flags does not affect the underwriting recommendation from GUS. This document is designed to assist Rural Development and Approved Lenders to detect data entry inconsistencies and potentially fraudulent transactions. Lenders remain responsible for the accuracy of the data entered.

Potential Red Flag	Observation	Recommended Review Action
<b>Appraised Value Inconsistency</b>	The appraised value entered on the “Additional Data” page does not coincide with the subject property value reported on the Uniform Residential Appraisal Report.	<ul style="list-style-type: none"> <li>■ The appraised value entered in GUS does not match the appraised value reported on the Uniform Residential Appraisal Report (URAR).               <ul style="list-style-type: none"> <li>○ Confirm information with the lender. GUS will need to be updated to insure that values reported in the URAR coincide with data entered in GUS.</li> </ul> </li> </ul>

<b>Potential Red Flag</b>	<b>Observation</b>	<b>Recommended Review Action</b>
<b>Assets</b>	<p>Possible duplication of assets represented on the “Asset and Liabilities” page and “Other Credits” on the “Transaction Details” page.</p> <p>Presence of excessive assets.</p>	<ul style="list-style-type: none"> <li>■ Assets entered on the “Asset and Liabilities” application page should not also be entered in the “Other Credits” section of the “Transaction Details” page. <ul style="list-style-type: none"> <li>○ Confirm by comparing the “Transaction Details” page to the “Asset and Liabilities” page.</li> </ul> </li> <li>■ Excessive assets, such as retirement assets, should meet the requirements of published guidance on the subject. <ul style="list-style-type: none"> <li>○ Confirm the lender has accurately represented the calculation of eligible retirement assets as 60% of the vested amount, or has retained documentation to support excessive assets.</li> </ul> </li> </ul>
<b>Borrower Name Does Not Match</b>	<p>The name on the credit report does not match the name on the “Borrower” application page.</p>	<ul style="list-style-type: none"> <li>■ GUS will trigger rule #30682 on the “GUS Underwriting Findings Report” under the “Lender’s Required Conditions,” “Prior to Conditional Commitment” section. This is the “Review for Accuracy” rule. The borrower’s name listed on the “Borrower” application page does not match the borrower’s name retrieved on the reissued credit report. <ul style="list-style-type: none"> <li>○ Confirm the differences with the lender.</li> </ul> </li> </ul>

Potential Red Flag	Observation	Recommended Review Action
<b>CAIVRS</b>	A “clear” CAIVRS (Credit Alert Interactive Voice Response System) confirmation code was not obtained for one or more borrowers.	<ul style="list-style-type: none"> <li>■ CAIVRS is a Federal government database of delinquent Federal debtors that allows federal agencies to reduce the risk to federal loan and loan guarantee programs. It is the approved lender and borrower’s responsibility to secure documentation that proves the claim reported by CAIVRS has been released or otherwise satisfied. The Agency must review the documentation submitted and determine if the borrower is no longer liable for the claim per RD Instruction 1980-D, section 1980.345(d)(f). The Agency should not condition for a “clear” CAIVRS. The determination must be completed prior to issuance of a Conditional Commitment. The documentation must be retained in lender’s permanent case file.</li> </ul>
<b>Federal Debts / Judgments</b>	The presence of <u>federal</u> debts or <u>federal</u> judgments on the credit report or by declaration on the “Transaction Details” application page.	<ul style="list-style-type: none"> <li>■ Applicants who are currently delinquent or in default on federal debts or judgments that are currently due must be brought current, paid in full, or have acceptable payment arrangements documented. <ul style="list-style-type: none"> <li>○ Confirm with lender that federal debts and or judgments present on the credit report are current, paid in full, or an acceptable payment arrangement is in place.</li> </ul> </li> </ul>
<b>Form RD 1980-21</b>	The absence of a <u>complete</u> Form RD 1980-21 at time of Conditional Commitment request.	<ul style="list-style-type: none"> <li>■ A complete Form RD 1980-21 signed by the approved lender and all applicant’s must be received before a conditional commitment can be issued. A facsimile, imaged, photocopy, or original signatures will be accepted.</li> </ul>

<b>Potential Red Flag</b>	<b>Observation</b>	<b>Recommended Review Action</b>
<b>Income</b>	All income deemed stable and dependable by the lender should be entered on the "Income and Expenses" application page for each applicant.	<ul style="list-style-type: none"> <li>■ Employment periods of short duration may not demonstrate a stable and dependable repayment income source. Further clarification with the lender may be necessary.</li> </ul>
<b>Interest Rates</b>	The current interest rate documented on Form RD 1980-21 appears to exceed RD Instruction 1980-D, section 1980.320 parameters.	<ul style="list-style-type: none"> <li>■ Interest rates "floating to close" as documented on Form RD 1980-21 must submit documentation in the closing package to confirm the date the rate was locked and the method of rate selection (Fannie Mae or VA rate).</li> <li>■ Interest rates locked as documented on Form RD 1980-21 per the VA rate must submit documentation (copy of rate sheet) to certify the rate selected is not outside of RD Instruction 1980-D, section 1980.320.</li> <li>■ Loans closed with interest rates outside of RD Instruction 1980-D, section 1980.320 are not eligible for Guaranteed Loan benefits.</li> </ul>

<b>Potential Red Flag</b>	<b>Observation</b>	<b>Recommended Review Action</b>
<b>Liabilities Comparison</b>	Liabilities entered in GUS do not match the liabilities listed on the credit report ordered/reissued by the approved lender in GUS (i.e. liabilities are missing, etc.)	<ul style="list-style-type: none"> <li data-bbox="1226 240 1906 406">■ The Agency should print the credit report attached in GUS on the “View Findings” page and compare the liabilities in the credit report to the “Asset and Liabilities” page completed by the approved lender.</li> <li data-bbox="1226 441 1906 636">■ GUS loan files that receive an “Accept” underwriting recommendation, but the lender manually entered liabilities into GUS that were not reported on the credit report must be downgraded to a “Refer” and require a manual underwrite.</li> <li data-bbox="1226 672 1906 776">■ Encourage the lender to utilize the “auto populate” feature available on the “Credit/Underwriting” page.</li> </ul>
<b>Previous Agency Loss</b>	GUS indicates by message that a previous loss for the applicant exists.	<ul style="list-style-type: none"> <li data-bbox="1226 815 1906 1010">■ The Agency must review documentation submitted by the approved lender to determine if the previous agency loss for the applicant was due to circumstances beyond the applicant’s control and if the reason(s) for the loss no longer exist.</li> <li data-bbox="1226 1045 1906 1205">■ An outstanding loss on a previous Agency loan currently being recovered through DCIA (Debt Collection Improvement Act) is a federal debt. The applicant is not eligible for Guaranteed Loan benefits.</li> </ul>

Potential Red Flag	Observation	Recommended Review Action
<p><b>Excessive Resubmissions</b></p>	<p>The loan has experienced an unusually high number of submissions. Excessive submissions can indicate manipulation of loan application data.</p>	<ul style="list-style-type: none"> <li data-bbox="1228 240 1900 406">■ GUS loan files that have “Preliminary” submissions of <b>10</b> and above <u>may</u> require additional review. The Agency should review the “Submission History” located at the bottom of the “USDA Administration” page.</li> <li data-bbox="1228 438 1900 544">■ Consistent underwriting recommendations such as 15 preliminary submissions that are all “Accept” are <u>not</u> a red flag.</li> <li data-bbox="1228 576 1900 706">■ Inconsistent underwriting recommendations such as 15 preliminary submissions that include 10 “Refer,” 3 “Refer with Caution,” and only 2 “Accept” <u>is</u> a red flag.</li> <li data-bbox="1228 738 1900 868">■ The Agency may request a full loan documentation file or specific supporting documentation to assist in a loan file review for these cases.</li> </ul>