Ratio Analysis

Single Family Housing Guaranteed Loan Program

Training Objectives

• Where is the topic located?
  * 7 CFR Part 3555 and HB-1-3555
• Learning Checks
• Resources
Things change!

• Every effort has been made to ensure training references are accurate at the time of publication.

• Always reference the most recent USDA publications available online.

Guaranteed Loan Program Regulation

7 CFR Part 3555

• The regulation is the rule!
• 8 Subparts: A – H
• Appendix 1
7 CFR Part 3555

7 CFR Part 3555
Subpart D: Underwriting the Applicant

- .151: Eligibility requirements
- .152: Calculation of income and assets

3555.151(h): Repayment ability
1. Repayment ratios
2. Compensating factors
3. Loan ratio exceptions
4. Additional applicants
5. Mortgage credit certificates
6. Section 8 Homeownership vouchers
7. Buydown accounts
Guaranteed Loan Program Technical Handbook

HB-1-3555

- Provides guidance to support the regulation
- HB is not the rule
- 20 Chapters
HB 11.2: The Ratios

A. PITI: 29%

- Principal
- Interest
- Real estate taxes
- Homeowners insurance
- Annual fee
- Additional assessments, HOA fees, etc. may also be applicable
HB 11.2: The Ratios

B. Total Debt (TD): 41%

- PITI
- Regular assessments
- Long-term obligations (10 months or more repayment)
- Revolving accounts
- 30 day accounts
- Alimony
- Garnishments

HB 11.2: The Ratios

B. Total Debt (TD): 41%

- Student loans
- Previous mortgage (divorce, sale, trade, transfer)
- Co-signed debts
- Business debts
- Non-Purchasing Spouse debts, as applicable
- Collections, as applicable
HB 11.2: The Ratios

B. Total Debt (TD): 41%

- Judgments
- Self-employed loss
- Auto allowance and expense payments
- Rental loss
- Short-term obligations (significant impact on repayment)
- Balloon
- Deferred payments

Debt Ratio Waivers 101

- GUS Accept = no waiver required
- GUS Accept with full documentation = no waiver required
- GUS Refer, Refer with Caution, or manual uw = waiver required
- No USDA published form, use 1008/similar uw form
**HB 11.3 A: Debt Ratio Waivers: Purchases Manual UW**

- All applicants = 680 credit score or higher
- Maximum ratios: 32% PITI / 44% TD
- 1 compensating factor with supporting documentation
  - Proposed PITI less than or equal to previous 12 months of verified housing cost with no late payments
  - 3 months or more of PITI in reserve post loan closing
  - All applicants employed with current employer for 2 years

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**HB 11.3 B: Debt Ratio Waivers: Refinances**

- Streamlined-Assist = no debt ratios calculated
- Streamlined and Non-Streamlined = ratios calculated

Compensating factors:
- 680 credit score for all applicants
- Continuous employment with primary job
- Ability to accumulate savings
- 12 months mortgage paid as agreed

Refer to the Refinance training module for more info!
HB 11.4: Mortgage Credit Certificate

HB 11.5: Funding Buydown Accounts

HB 11.6: Section 8 Homeownership Vouchers
A. Repayment income
B. Offset to principal, interest, taxes, and insurance

HB 11.7: Obligations not included in total debt ratio
• Childcare, 401k loans, etc.

TIPS
• Underwriter = USDA Approved Lender
• USDA = not an underwriter
• Research Rule & HB questions: Table of Contents
• Research Rule & HB questions: Control + F
7 CFR PART 3555 / HB-1-3555
LEARNING CHECKS

Question Slide

“Topic”

• Question will be bulleted with scenario, or
• Include a statement/question

TRUE/FALSE or other answer options will be displayed
“Topic”
ANSWER: 7 CFR Part 3555 and HB-1-3555 references provided

X. Correct Response

• Additional guidance for clarification may be provided
Ratio Analysis

• Annual HOA fee of $600 applies to home purchase
• The HOA fee does not need to be included in the PITI amount

A. TRUE    B. FALSE

Ratio Analysis

ANSWER: 3555.151(h)(1)(i), HB 11.2 A

B. FALSE

• HOA fees, taxes, annual fee escrow, hazard and flood insurance premiums must be included in PITI regardless of escrowed status
• The PITI is part of the TD
Ratio Analysis

Student Loans on credit report:
A. Balance $6,000 Payment $40 (fixed rate/term plan)
B. Balance $8,000 Payment $65 (fixed rate/term plan)
C. Balance $12,000 Payment $35 (income-based plan)

Which student loan payment(s) is not eligible to be utilized in the ratios?

ANSWER: 3555.151(h)(1)(i), HB 11.2 B

C. Balance $12,000 Payment $35 (IBR)

• An income based payment is not eligible, it is subject to change
• 1% of the loan balance documented on the credit report must be used, no additional documentation required
• A fixed payment loan is defined as: fixed payment, fixed interest rate, and fixed term with no future adjustments
Ratio Analysis
• Bill co-signed for his daughter’s car
• 12 months of bank statements are provided to prove she paid the debt
• Two late payments are listed for the debt on the credit report within the last 12 months
• The debt may be excluded from Bill’s ratios

A. TRUE  B. FALSE

Ratio Analysis
ANSWER: 3555.151(h)(1)(i), HB 11.2 B

B. FALSE

• Late payments in the last 12 months = debt must be counted
• “Individual” account on credit report = debt must be counted, regardless of who is making the payment
Ratio Analysis

- Christy has a previous mortgage with ex-spouse
- Divorce decree awarded home to ex-spouse 16 months ago, no late payments
- No refinance of the mortgage has occurred
- Mortgage debt may be omitted for Christy

A. TRUE     B. FALSE

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Ratio Analysis

ANSWER: 3555.151(h)(1)(i), HB 11.2 B

B. TRUE

Required documentation must be retained:
- Retain copy of divorce decree
- Document the mortgage has no late payments (credit report or verification from loan servicer)
- Divorce decree effective less than 12 months/Late payments in last 12 months = count the debt
Ratio Analysis

• Credit report includes a charge-off account
• Balance is $1,250
• What payment must be included in the TD ratio

A. $62.50 (5%)  B. $0.00

Ratio Analysis

ANSWER: 3555.151(h)(1)(i), HB 11.2 B

B. $0.00

• Charge-off accounts may be excluded from TD ratio
• Underwriter must continue to review credit history per HB Chapter 10 to determine if applicant is credit eligible
Ratio Analysis

- GUS Refer uw recommendation
- Ratios: 31/42
- Credit Scores: Applicant 1: 735  Applicant 2: 682
- Job Time: Applicant 1: 6 mo. Applicant 2: 4 years
- Current Rent (16 mo.): $850  New PITI: $783
- Loan is eligible for a ratio waiver

  A. TRUE    B. FALSE

ANSWER: 3555.151(h)(2), HB 11.3 A

- Ratios do not exceed 32% PITI / 44% TD
- Both applicants have 680 credit score or above
- New PITI is at or below the current rent paid for previous 12 months
Ratio Analysis

- GUS Refer uw recommendation
- Ratios: 32/32
- Ratio waiver is not required because TD ratio does not exceed 41%

A. TRUE   B. FALSE

Ratio Analysis

ANSWER: 3555.151(h)(1) and (3), HB 11.3 A

B. FALSE

- If either ratio is exceeded without a GUS Accept uw recommendation = ratio waiver request required
Ratio Analysis

- GUS Refer uw recommendation
- Ratios: 27/42
- Credit Scores: Applicant 1: 682  Applicant 2: 766
- Job Time: Applicant 1: 1 year  Applicant 2: 1.5 years
- No current rent
- No reserves
- Loan is eligible for a ratio waiver

A. TRUE    B. FALSE

Ratio Analysis

ANSWER: 3555.151(h)(2), HB 11.3 A

B. FALSE

- TD ratio exceeds 41%
- Both applicants have 680 credit score or above BUT
- They lack one eligible compensating factor: Job time is below 2 years, no reserves, and no current housing for comparison
Ratio Analysis

- GUS Refer uw recommendation
- Ratios: 31/42
- Applicant credit score: 750
- Job time: 3.5 years
- Ratio waiver request documented to USDA
- USDA issued conditional commitment
- The ratio waiver has been approved by USDA

A. TRUE  B. FALSE

Ratio Analysis

ANSWER: 3555.151(h)(3), HB 11.3 A and B

A. TRUE

- Issuance of Form RD 3555-18/18E (conditional commitment) serves as notice of debt ratio waiver approval by USDA
Ratio Analysis

• Sean has a business loss of $15,000
• Sean has negative net rental income of $5,000
• Which one of these is a recurring monthly liability in the TD ratio

A. Business loss  B. Rental income loss

ANSWER: 3555.151(h)(1)(i), HB 11.2B

B. Rental income loss

• A net rental loss is included in the total debt ratio
• A business loss is deducted from repayment income
Ratio Analysis

• Christine has car payment of $350
• She receives a monthly car allowance of $200
• Which amount should be used in the debt ratios?

A. $350    B. $150

ANSWER: 3555.151(h)(1)(i), HB 11.2B

A. $350

• Monthly car payment = recurring debt.
• No offset allowed to payment due to car allowance
Ratio Analysis

- Chad’s gross monthly repayment income: $3,600
- Auto payment: $500, 8 months repayment remain
- Lender excludes auto liability from ratios
- Chad’s ratios: 29% PITI and 40% TD
- UW may decide to include the auto payment in the ratios due to its significant impact on repayment

A. TRUE  B. FALSE

Ratio Analysis

ANSWER: 3555.151(h)(1)(i), HB 11.2 B

B. TRUE

- Significant impact defined as 5% of gross monthly repayment income
- Gross monthly income $3,600 x 5% = $180
- Underwriter must include debts determined to be significant in regards to repayment ability
Ratio Analysis

• Lindsey has a 401k loan
• $150 is deducted from each paycheck
• 18 months repayment remain
• The $150 payment must be included in debt ratios

A. TRUE    B. FALSE

Ratio Analysis

ANSWER: 3555.151(h)(1)(i), HB 11.2 B and 11.7

B. FALSE

• 401k loans and other loans against personal assets are not included in debt ratios
• The applicant has borrowed against their own asset
Ratio Analysis

- Michael has a Mortgage Credit Certificate (MCC)
- The benefit will be $2,000/annually or $166.67/monthly
- Lender should add $166.67 to Michael’s repayment income on the “Asset and Liabilities” GUS application page

A. TRUE  B. FALSE

Ratio Analysis

ANSWER: 3555.151(h)(5), HB 11.2 B  

B. FALSE

- Enter the monthly MCC amount on the “Additional Data” GUS application page in the data field provided. GUS will deduct the benefit from the PITI.
Ratio Analysis

• Michael has a Mortgage Credit Certificate (MCC)
• The lender has a statement regarding the approval of the MCC
• No additional documentation is required

A. TRUE    B. FALSE

Ratio Analysis

ANSWER: 3555.151(h)(5), HB 11.4

B. FALSE

Loan file must contain copies of the following:
• MCC showing the rate of credit allowed (and annual cap)
• Lender calculation of the adjustment to income
• Copy of the borrower’s IRS Form W-4 to reflect the tax credit is taken on a pay-period basis
• Lender certification that the applicant completed/processed all necessary documents to receive the credit
Ratio Analysis

• Jane is using a temporary buydown
• Year 1: 2.5%, Year 2: 3.5%, Year 3-30: 4.5%
• The loan may be underwritten at 2.5%

A. TRUE  B. FALSE

Ratio Analysis

**ANSWER: 3555.151(h)(7), HB 11.5**

B. FALSE

• The loan must be underwritten at 4.5%, the full note rate
• Additional buydown requirements apply under 3555.151(h)(7)
Ratio Analysis

• Mary receives a Section 8 Homeownership voucher
• The benefit is paid directly to Mary
• Lender must apply the benefit as an “offset” to the PITI payment

A. TRUE  B. FALSE

Ratio Analysis

ANSWER: 3555.151(h)(6), HB 11.6

B. FALSE

• Benefit paid to recipient = add to repayment income
• Benefit paid to loan servicer = “offset” PITI
• Section 8 benefits are not included in annual income calculations
Ratio Analysis

• Susie and Billy are married
• They are moving from a non-community property state to a community property state
• Susie is the only applicant
• Billy’s debts are not included because they currently reside in a non-community property state

A. TRUE B. FALSE

Ratio Analysis

ANSWER: 3555.151(h)(1)(iv), HB 11.2B

B. FALSE

• Applicants who reside or are purchasing in a community property state, the debts of the non-purchasing spouse (NPS) must be included in the applicant’s debt ratio.
• Debts specifically excluded by state law may be omitted.
WAY TO GO!

Regulations

GovDelivery Sign up

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