



USDA United States Department of Agriculture
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Ratio Analysis

Single Family Housing Guaranteed Loan Program

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Training Objectives

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

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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.

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Guaranteed Loan Program Regulation

7 CFR Part 3555

- The regulation is the rule!
- 8 Subparts: A – H
- Appendix 1

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7 CFR Part 3555

<http://www.rd.usda.gov/publications/regulations-guidelines>

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Regulations & Guidelines

All Federal regulations can be found at Regulations.gov and customers can search, review and submit comments on Federal documents that are open for comment and published in the Federal Register.

As a service to our customers, we post Rural Development's Instructions, Administrative Notices, and forms. The Instructions are available in three file formats: Adobe Acrobat (PDF), Microsoft Word 6.0 (doc) and Text (txt). To the extent possible, all documents have been made available in either Adobe Acrobat Ver 5.0 and higher, or Text and are 508 compliant. If you should have accessibility issues and need a hard copy, please send an e-mail to comments@wdc.usda.gov.

If you are having problems with this page, need a hard copy of any of the documents due to accessibility issues or would like to be added to the Regulations Update distribution list (available for Rural Development employees only with a valid Rural Development e-mail address), please e-mail comments@wdc.usda.gov.

Rural Development

- Administrative Notices
- Instructions
- Forms
- Spanish Forms, Form Letters and Guide Letters
- Handbooks
- Procedures Notices
- Significant Guidance Documents
- Unnumbered Letters
- Federal Register Publications

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7 CFR Part 3555

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Handbooks

- HB-1-3550 Direct Single Family Housing Loans and Grants - Field Office Handbook
- HB-2-3550 Direct Single Family Housing Loans and Grants - Centralized Servicing Center Handbook
- HB-4-3555 SFH Guaranteed Loan Program Technical Handbook**
- HB-1-3560 MFH Loan Origination Handbook
- HB-2-3560 MFH Asset Management Handbook
- HB-3-3560 MFH Project Servicing Handbook
- HB-1-3565 Guaranteed Rural Rental Housing Program Origination and Servicing Handbook
- Application Information Systems Support Handbook
- HB-1-3550 Direct Single Family Housing Loans and Grants - Field Office Handbook

HB-4-3555 SFH Guaranteed Loan Program Technical Handbook

Table of Contents

- Chapter 1 - Overview
- Chapter 2 - Record Retention
- Chapter 3 - Lender Approval
- Chapter 4 - Lender Responsibilities
- Chapter 5 - Origination and Underwriting Overview
- Chapter 6 - Loan Purposes
- Chapter 7 - Loan Terms and Conditions
- Chapter 8 - Applicant Characteristics
- Chapter 9 - Income Analysis
- Chapter 10 - Credit Analysis
- Chapter 11 - Ratio Analysis
- Chapter 12 - Property and Appraisal Requirements
- Chapter 13 - Special Property Types
- Chapter 14 - Funding Priorities
- Chapter 15 - Submitting the Application Package
- Chapter 16 - Closing the Loan and Requesting the Guarantee
- Chapter 17 - Regular Servicing-Performing Loans
- Chapter 18 - Servicing Non-Performing Loans - Accounts with Repayment Problems
- Chapter 19 - Custodial and Real Estate Owned Property
- Chapter 20 - Loss Claims - Collecting on the Guarantee

Acronyms

Glossary

- Appendix 1 - 7 CFR part 3555
- Appendix 2 - Forms and Instructions
- Appendix 3 - Review and Appeals
- Appendix 4 - Agency and Employee Addresses
- Appendix 5 - Income Limits
- Appendix 6 - Interest Assistance
- Appendix 7 - Calvis Access Instructions
- Appendix 8 - EDI Documentation
- Appendix 9 - Penalties
- Appendix 10 - Unnumbered Letter and State Supplements



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7 CFR Part 3555

Subpart D: Underwriting the Applicant

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

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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

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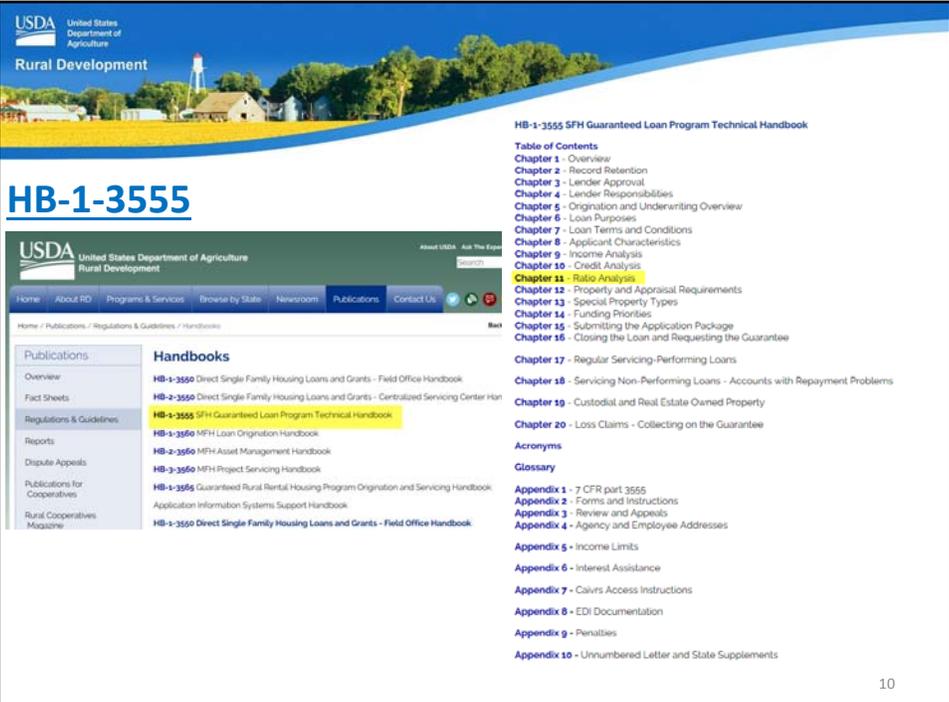


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Guaranteed Loan Program Technical Handbook HB-1-3555

- Provides guidance to support the regulation
- HB is not the rule
- 20 Chapters

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HB-1-3555

HB-1-3555 SFH Guaranteed Loan Program Technical Handbook

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HB-1-3555

CHAPTER 11: RATIO ANALYSIS

- 11.1 INTRODUCTION
- 11.2 THE RATIOS
 - A. The PITI Ratio
 - B. The Total Debt Ratio
- 11.3 DEBT RATIO WAIVERS AND COMPENSATING FACTORS
 - A. Debt Ratio Waivers
 - B. Compensating Factors for Refinance Transactions
- 11.4 MORTGAGE CREDIT CERTIFICATES
- 11.5 FUNDED BUYDOWN ACCOUNTS
- 11.6 SECTION 8 HOMEOWNERSHIP VOUCHERS
 - A. Repayment Income
 - B. Offset to Principal, Interest, Taxes and Insurance (PITI)
- 11.7 OBLIGATIONS NOT INCLUDED IN DEBT-TO-INCOME RATIOS

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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

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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

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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

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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

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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

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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!

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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.

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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

supplemental social security income and Social Security benefits received in a lump sum;

(vii) Any earned income tax credit;

(viii) Adoption assistance in excess of any amount determined pursuant to HUD's definition of annual income at 24 CFR 5.609(c);

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7 CFR PART 3555 / HB-1-3555 LEARNING CHECKS

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Question Slide

“Topic”

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

TRUE/FALSE or other answer options will be displayed

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ANSWER SLIDE

“Topic”
ANSWER: 7 CFR Part 3555 and HB-1-3555 references provided

X. Correct Response

- Additional guidance for clarification may be provided

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**LET'S
GET STARTED.**

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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

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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

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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?

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Ratio Analysis

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

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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

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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

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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

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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

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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

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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

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Ratio Analysis

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

A. TRUE

- 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

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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

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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

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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

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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

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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

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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

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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

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Ratio Analysis

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

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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

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Ratio Analysis

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

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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

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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 \times 5\% = \180
- Underwriter must include debts determined to be significant in regards to repayment ability

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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

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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

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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

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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.



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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

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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

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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

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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)

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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

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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

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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

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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.

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WAY TO GO!

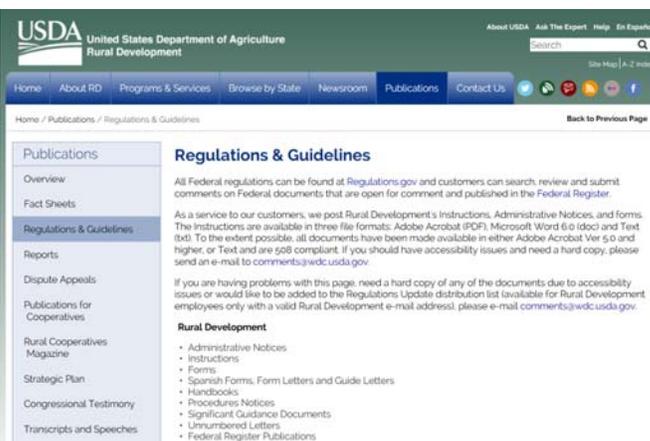
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Regulations

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