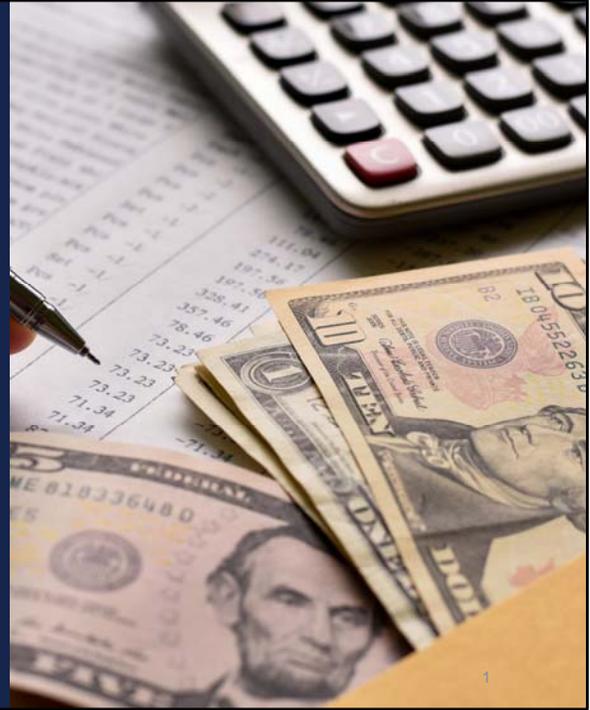


Ratio Analysis

Single Family Housing Guaranteed Loan Program
(SFHGLP)

1/2020



Welcome to the Ratio Analysis online training module presented by USDA's Single-Family Housing Guaranteed Loan Program.



PITI Ratio

Total Debt Ratio

Student Loan Payments

Repayment Ratio

Ratio Waivers

Compensating Factors

Increasing Repayment Ability

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- Proper ratio assessments and calculations are crucial to underwriting and can negatively alter purchasing power if not analyzed correctly.
- Learning the keys to guaranteed ratio calculations will help you guide borrowers to a path of successful homeownership.

Ratio Analysis

HB-1-3555, Chapter 11



Total Debt Ratio

- May exceed 41% with significant compensating factors.
- Includes:
 - PITI
 - Long-term obligations with more than 10 months remaining
 - Short-term obligations that have a significant impact on repayment ability (5% or greater of the applicant's monthly repayment income)
 - Rental loss
 - Balloon/deferred payments and payments that will come due in the next 24 months

- The Total Debt Ratio includes PITI PLUS any other monthly credit obligations owed by the applicant such as longer term obligations with more than 10 months remaining, short term obligations that have a significant impact on repayment ability, rental losses, and balloon/deferred payments that will come due within the next 24 months.

Ratio Analysis

HB-1-3555, Chapter 11



PITI Ratio

- May exceed 29% with significant compensating factors.
- Includes:
 - Principal & Interest
 - Insurance Premiums
 - Taxes
 - Annual Fee
 - HOA Dues
 - Special Assessments

- The PITI Ratio is also known as the housing ratio and includes the principal and interest payment, along with the escrow of taxes and insurance, and any other housing specific expenses like HOA fees and special assessments.

Ratio Analysis

HB-1-3555, Chapter 11



Revolving Accounts

- Minimum monthly payment (even if appears to be paid off in less than 10 months).
- No monthly payment listed; use 5% of balance.
- Payment verified by current statement.
- Payment must include any additional debt added to the balance since the date of the report.
- No balance, no payment required to be included and not required to be closed.

- Revolving Accounts
- Include the minimum monthly payment, 5% of the balance, or verified payment on current statement for revolving accounts even if the account appears to be paid off in less than 10 months.
- If the balance is 0, no payment is required.

Ratio Analysis

HB-1-3555, Chapter 11



Non-Purchasing Spouse Debts

- Include all NPS debts (unless excluded by state law).
 - Lender must determine if debts may be excluded per state statute.
 - Must cite the specific statute in permanent loan file.
- GUS: Manually enter the obligation on the “Additional Expenses” on the “Assets and Liabilities” page.

- When applicants reside in or are purchasing in a community property state, debts of a non-purchasing spouse must be included unless excluded by state law.
- The lender must cite the specific state statute in the permanent case file.

Ratio Analysis

HB-1-3555, Chapter 11



Student Loans

- Fixed Payment
 - Retain documentation to verify payment, rate, and term are fixed.
- Non-Fixed (IBR plans, graduated plans, adjustable rates, interest only, and deferred plans):
 - Use greater of 0.5% of the outstanding balance or current documented payment under the approved repayment plan with the creditor.

Student Loans

- For fixed loan payments, retain documentation to verify payment, rate, and term are fixed.
- For non-fixed loan payments such as IBR plans or graduated plans, use the greater of 0.5% of the outstanding balance or current documented payment under the approved repayment plan with the creditor.
- Student loans in the applicant's name but paid by another party and student loans in a “forgiveness” plan require that the applicable payment is included in the monthly debts.

Slide 7

CJ-RSPW1 Czappa, Julie - RD, Stevens Point, WI, 11/10/2020

Ratio Analysis

HB-1-3555, Chapter 11



Child Support, Alimony, and Garnishments

- Exclude only if applicant has a release of liability from the court or creditor and acceptable evidence is obtained.
- May exclude if 10 or less payments remain, and the payment does not exceed 5% of the monthly repayment income.
- GUS: Manually enter the obligation under “Additional Expenses” on the “Assets and Liabilities” page.

- For liabilities such as child support, alimony, and garnishments, a monthly payment must be included unless the applicant has a release of liability or there are less than 10 payments remaining.
- These debts must be manually entered under “Additional Expenses” on the “Assets and Liabilities” GUS application page.

Ratio Analysis

HB-1-3555, Chapter 11



Co-signed Obligations & Business Debts

- Include unless evidence is provided showing that another party has made the payment in the previous 12 months prior to loan application.
 - Late payments reported in the previous 12 months prior to application will require the debt to be included.
 - Includes accounts in forbearance under CARES Act.
- Debts identified as “individual” will always be included in the debt ratio regardless of who is making the payment.

- If the applicant has any co-signed obligations or business debts, those must be included unless evidence is provided showing that another party has made the payment in the previous 12 months prior to loan application.
- If there are any late payments in the previous 12 months, the debt must be included.

Ratio Analysis

HB-1-3555, Chapter 11



Co-signed Obligations & Business Debts

- **Previous Mortgage**
- Include in total debt ratio if disposed of through a sale, trade or transfer without a release of liability.
 - Exception:
 - The remaining party or new owner has successfully made the payment in the previous 12 months prior to loan application as evidenced by the credit report.
 - In the case of a divorce, the lender will obtain a copy of the divorce decree ordering the spouse to make payments. (Must still provide evidence account was paid as agreed for 12 months.)

- If the applicant has a previous mortgage that was disposed of through a sale, trade or transfer without a release of liability, the debt must be included unless the remaining party or new owner has successfully made the payment for the previous 12 months.
- In the case of a divorce, the lender will obtain a copy of the divorce decree ordering the spouse to make payments and provide evidence account was paid as agreed for 12 months.

The infographic is divided into two main sections. On the left, a dark blue vertical bar contains three light blue boxes with white text and icons. The top box, with a line graph icon, states 'PITI Exceeds 29% and/or TDR Exceeds 41%'. The middle box, with a gauge icon, states 'AND GUS Underwriting Recommendation is "Refer" or "Refer with Caution"'. The bottom box, with a thumbs-up icon, states 'NOT required for GUS "Accept" (incl. Full Documentation) Underwriting Recommendations'. A small speaker icon is at the bottom left of this bar. On the right, a white clipboard with a black border and a silver clip at the top is titled 'Debt Ratio Waiver'. It contains a checklist of four items, each with a red checkmark in a box: 'PITI ratio cannot exceed 32%', 'Total Debt Ratio cannot exceed 44%', 'Credit Score must be 680 or greater', and 'At least one acceptable compensating factor is present'. A small number '11' is in the bottom right corner of the clipboard area.

PITI Exceeds 29%
and/or
TDR Exceeds 41%

AND

GUS Underwriting
Recommendation is
"Refer" or "Refer with
Caution"

NOT required for GUS
"Accept" (incl. Full
Documentation)
Underwriting
Recommendations

Debt Ratio Waiver

- PITI ratio cannot exceed 32%
- Total Debt Ratio cannot exceed 44%
- Credit Score must be 680 or greater
- At least one acceptable compensating factor is present

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- If an applicant's PITI ratio exceeds 29% or the TDR exceeds 41% and the GUS underwriting recommendation is a "Refer" or "Refer with Caution" or for a manually submitted file, then a ratio waiver is required and must be requested and documented by the lender.
- To be eligible for a ratio waiver, the PITI ratio cannot exceed 32%, the Total Debt Ratio cannot exceed 44%, The Credit Score must be 680 or greater, and at least one acceptable compensating factor must be present.

PITI Exceeds 29%
and/or
TDR Exceeds 41%

AND

GUS Underwriting
Recommendation is
"Refer" or "Refer with
Caution"

NOT required for GUS
"Accept" (incl. Full
Documentation)
Underwriting
Recommendations





Compensating Factors

- Proposed PITI is equal to or less than current housing expense
- Savings or cash reserves of at least 3 months of PITI payments
- All employed applicants have been continuously employed with their current primary employer for a minimum of 2 years

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Acceptable compensating factors for ratio waivers include:

- A proposed PITI is equal to or less than the applicants current verified housing expense for 12 months proceeding the loan application;
- Savings or cash reserves of at least three months of PITI payments;
- Or all employed applicants have been continuously employed with their current primary employer for a minimum of two years. This is not applicable those that are self employed.

- There are a few ways to increase a borrower's repayment ability
- The borrower may pay down installment debt to 10 payments or less if allowed by the lender,
- Mortgage Credit Certificates,
- Funded buydown accounts,
- And Section 8 Homeownership Voucher

- Some examples of obligations not considered or included in total debt-to-income ratio calculations include:
 - Medical collections;
 - Retirement contributions such as 401(k) accounts, including the repayment of loans secured by 401(k) funds;
 - Utilities;
 - Insurance, other than property insurance;
 - Union dues.

LEARNING CHECKS

7 CFR Part 3555 / HB-1-3555



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The best way to learn information is to test your knowledge!

QUESTION

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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Each question slide will list:

- the topic
- A question or scenario, and
- potential responses.

ANSWER

Topic

7 CFR Part 3555 and HB-1-3555 references provided

X. Correct Response

- Additional guidance for clarification may be provided



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The answer slide will list:

- The topic
- The reference to the answer from the regulation and handbook
- The correct response, and
- Any additional clarification that may be helpful.

Ready?

**LET'S GET
STARTED!**



Let's get started!

QUESTION

Ratio Analysis

- Heidi is married and lives in a community property state.
- Her husband has some credit issues; therefore, he will not be on the loan for the new home.
- Because he is not on the loan his debts will not be included in the Total Debt Ratio.

A. TRUE B. FALSE



Read question

ANSWER

Ratio Analysis

3555.151(1)(iv) and HB 3555 Chapter 11.2(B)

B. FALSE

- (iv) Except for obligations specifically excluded by State law, the debts of non-purchasing spouse must be included in the applicant's repayment ratios if the applicant resides in a community property state.



B. False

- Applicants who currently reside or are purchasing a home in a community property state must include the debts of the non purchasing spouse unless specifically excluded by state law.

QUESTION

Ratio Analysis

- Mike has repayment income of \$3500/mo.
- He has an installment loan with 9 payments of \$200/mo. remaining on the loan.
- Can this account be omitted from the total debt ratio calculation?

A. YES B. NO



Read question

ANSWER

Ratio Analysis

HB 3555 Chapter 11.2(B)

B. NO

- If ten or less months of repayment remains per the credit report, creditor verification, etc., the monthly debt may be excluded if the payment does not exceed five percent of the monthly repayment income.



B. No.

Installment payments with 10 or less payments remaining may only be excluded if they do not exceed 5% of repayment income.

QUESTION

Ratio Analysis

- Kathy has received an automobile allowance of \$700 per month from her current employer for 2 years.
 - She has a car loan on her credit report with a payment of \$650 per month.
 - What will be the amount of the car payment included in the total debt ratio calculation?
- A. \$1350
B. \$50
C. \$650
D. \$700



Read question

ANSWER

Ratio Analysis

HB 3555 Chapter 11.2(B)

C. \$650.00

- An automobile or allowance will not cancel out a monthly debt for an automobile or expense loan/debt.
- The full monthly payment(s) due must be included in the monthly debt.
- Refer to Chapter 9 for automobile and expense allowance income guidance.



C. \$650

- The full amount of the automobile loan payment must be included in the total debt ratio calculation.
- If the required documentation is provided per HB 3555 Chapter 9, the amount of the allowance that exceeds the expenditure MAY be included in the repayment income.

QUESTION

Ratio Analysis

- A borrower has a rental property they plan to retain, how many months must it be rented prior to the loan application to qualify to be omitted from the total debt ratio?
- A. 12 Months
B. 18 Months
C. 24 Months
D. 36 Months



Read question

ANSWER

Ratio Analysis

HB 3555 Chapter 11.2(B)

C. 24 months

- A retained dwelling that has been rented for 24 months or longer prior to loan application may have the mortgage obligation omitted when the applicant provides documentation to support the lease history.

C. 24 months or longer

A retained dwelling that has been rented for 24 months or longer prior to the loan application may have the mortgage obligation omitted with supporting documentation.

QUESTION

Ratio Analysis

- Marvel Bank has a borrower with a PITI ratio of 33% and a Total Debt Ratio of 44%.
- The file received a GUS Accept Full Documentation underwriting recommendation.
- Does Marvel Bank need to submit a Debt Ratio Waiver for this file?

A. YES B. NO



Read question

ANSWER

Ratio Analysis

HB 3555 Chapter 11.3(A)

B. NO

- GUS files that receive an Accept or Accept Full Documentation underwriting recommendation do not require debt ratio waivers.

B. No

- GUS files that receive an Accept or Accept Full Documentation do not require debt ratio waivers.

QUESTION

Ratio Analysis

- What compensating factor listed below is considered eligible to use for a debt ratio waiver?
 - A. All applicants are continuously employed with their current employer for a minimum of 1 year.
 - B. Borrower has cash on hand available post loan closing equal to or greater than 3 months of PITI payments.
 - C. Accumulated savings or cash reserves available post loan closing equal to or greater than 2 months reserves.
 - D. The Proposed PITI is equal to or less than the applicant's current verified housing expense for the 12-months preceding the loan application.

Read question

ANSWER

Ratio Analysis

HB 3555 Chapter 11.3(A)

D. The Proposed PITI is equal to or less than the applicants current verified housing expense for the 12-months preceding the loan application

- Document with a VOR or credit report as noted in Chapter 10.
- Rent or mortgage payments made to a family member will not be considered unless 12 months of canceled checks, money order receipts, or electronic payment confirmations are provided.



D.

- The Proposed PITI is equal to or less than the applicants current verified housing expense for the 12-month period preceding loan application.
- This must be documented with a VOR or credit report as noted in Chapter 10.
- The VOR or credit report must include the actual payment and report no late payments for the last 12 months.
- Rent or mortgage payments made to a family member will not be considered unless 12 months of canceled checks, money order receipts, or electronic payment confirmations are provided.

A is incorrect because all applicants must be continuously employed with their current primary employer for a minimum of two years, not one.

B is incorrect because cash on hand is not eligible for consideration as a compensating factor.

C is incorrect because accumulated savings or cash reserves available post loan closing must be equal to or greater than three months of the PITI payment, not two months.

QUESTION

Ratio Analysis

- Loans secured by 401k or saving deposits are required to be included in the debt ratio calculation.

A. TRUE B. FALSE



Read question

ANSWER

Ratio Analysis

3555.151(1)(iii) and HB 3555 Chapter 11.7

B. FALSE

- Retirement contributions such as 401(k) accounts, including the repayment of loans secured by 401(k) funds are not included in debt to income ratios.



- B. False
- Retirement contributions such as 401(k) accounts, including the repayment of loans secured by 401(k) funds are not included in debt to income ratios.

Way to Go!
**LEARNING CHECK
COMPLETED!**



Way to go! You have completed the learning checks!

Lender Toolkit



Rural Development has developed numerous tools and resources to assist lenders with originating, processing, and servicing guaranteed loans.

- This training module has provided you with an overview of the key requirements of Ratio Analysis.
- Complete program requirements and guidance can be found in 7 CFR Part 3555, Subpart D, Section 3555.151(h) and Chapter 11 of HB-1-3555.
- Be sure to bookmark these references, save yourself valuable time by using Ctrl-F to quickly search and find answers, and always ensure you are referencing the most current publications.
- The “Program Overview Training” module will assist you in learning how to navigate through all the resources and tools Rural Development has created to assist you.

Have a question on POLICY?
Contact the PAC team!

Need TRAINING?
Contact the LPA team!

Have a question on a SPECIFIC FILE?
Contact the OPD!

USDA Rural Development <small>U.S. DEPARTMENT OF AGRICULTURE</small>		Single Family Housing Guaranteed Loan Program (SFHGLP) Contacts & Resources
TOPIC	CONTACT	
File-Specific Questions Information to include in email: <ul style="list-style-type: none"> Identify the state the application is located; if applicable; Provide applicant's name and USDA borrower ID, if applicable; GUS loan number, if applicable Include contact information; and Indicate if you would like a call back (otherwise you will receive an email reply) 	Production Team One: SFHGLPONE@usda.gov AK, AL, AZ, CA, CO, GU, HI, IA, ID, KS, MT, NM, NV, OR, SD, TX, UT, WA, WI, WY, WY Production Team Two: SFHGLPTWO@usda.gov AR, KY, LA, MN, MO, MS, ND, NE, NJ, NY, OK Production Team Three: SFHGLPTHREE@usda.gov CT, DE, GA, IL, MA, MD, ME, MI, NC, NH, RI, SC, VT, WV Production Team Four: SFHGLPFOUR@usda.gov FL, IN, OH, PA, PR, TN, VA, VI	
Lender Approval	sfhld.compliance@usda.gov	
Lender Recertification		
Program Training	sfhld.lenderpartner@usda.gov	
Program Marketing & Outreach		
General Loan Scenario Questions	sfhld.program@usda.gov	
Loan Policy/Regulation/Handbook		
Loan Servicing	sfhgpservicing@usda.gov	
Technical Issues: e-Authentication	eAuthHelpDesk@fnc.usda.gov 800-457-3642, option 1 (USDA e-Authentication Issues)	
Technical Issues: GUS	RD.HD@STL.USDA.GOV 800-457-3642, option 2 (USDA Applications); then option 2 (Rural Development)	
Loss Claims	guarantee.nrc@st.usda.gov	
Monthly & Quarterly Status Reporting		
GUS User Agreements	rd.nfaoc.hsb@st.usda.gov	
TOOLS & RESOURCES		
Regulation and Handbook: https://www.rd.usda.gov/resources/directives Lender Webpage—Turn times, contact information, and helpful links: https://www.rd.usda.gov/page/sfh-guaranteed-lender USDA LINC—Training modules, user guides, and more useful resources: https://www.rd.usda.gov/programs-services/lenders/usda-linc-training-resource-library GovDelivery—Receive notifications regarding origination, servicing, and GUS updates: https://public.govdelivery.com/accounts/USDARD/subscribe/new		

- Users should first look for answers to their questions in the regulation and handbook, but if you still have a question after reviewing your resources, we're here to help.
- All policy and regulation questions regarding the topic we just covered should be sent to our Policy, Analysis, and Communications Branch and
- If you would like to request additional program training, contact our Lender and Partner Activities Branch.

The Single Family Housing Guaranteed Lender webpage was specifically designed for our lending partners and includes information such as:

- Current turn times on new loan applications
- Contact information, and
- Links to program resources such as our 3555 Handbook and the [USDA LINC](#) website.
- Also, don't forget to sign up for our GovDelivery email notifications. Rural Development sends out origination, GUS, and servicing messages to alert lenders of new publications, clarifications, and additional program updates.

Thank you for supporting the USDA Single Family Housing Guaranteed Loan Program and America's rural homebuyers!



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This will conclude the training module. Thank you and have a great day!