Welcome to the Ratio Analysis online training module presented by USDA’s Single-Family Housing Guaranteed Loan Program.
• 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.
• 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.
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.
- **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.
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.
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.
Child Support, Alimony, and Garnishments

- Exclude only if the 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.
• 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.
• 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.
• 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.
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

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

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.
Let’s get started!
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
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
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
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.
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
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.
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
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
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.

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