

Ratio Analysis

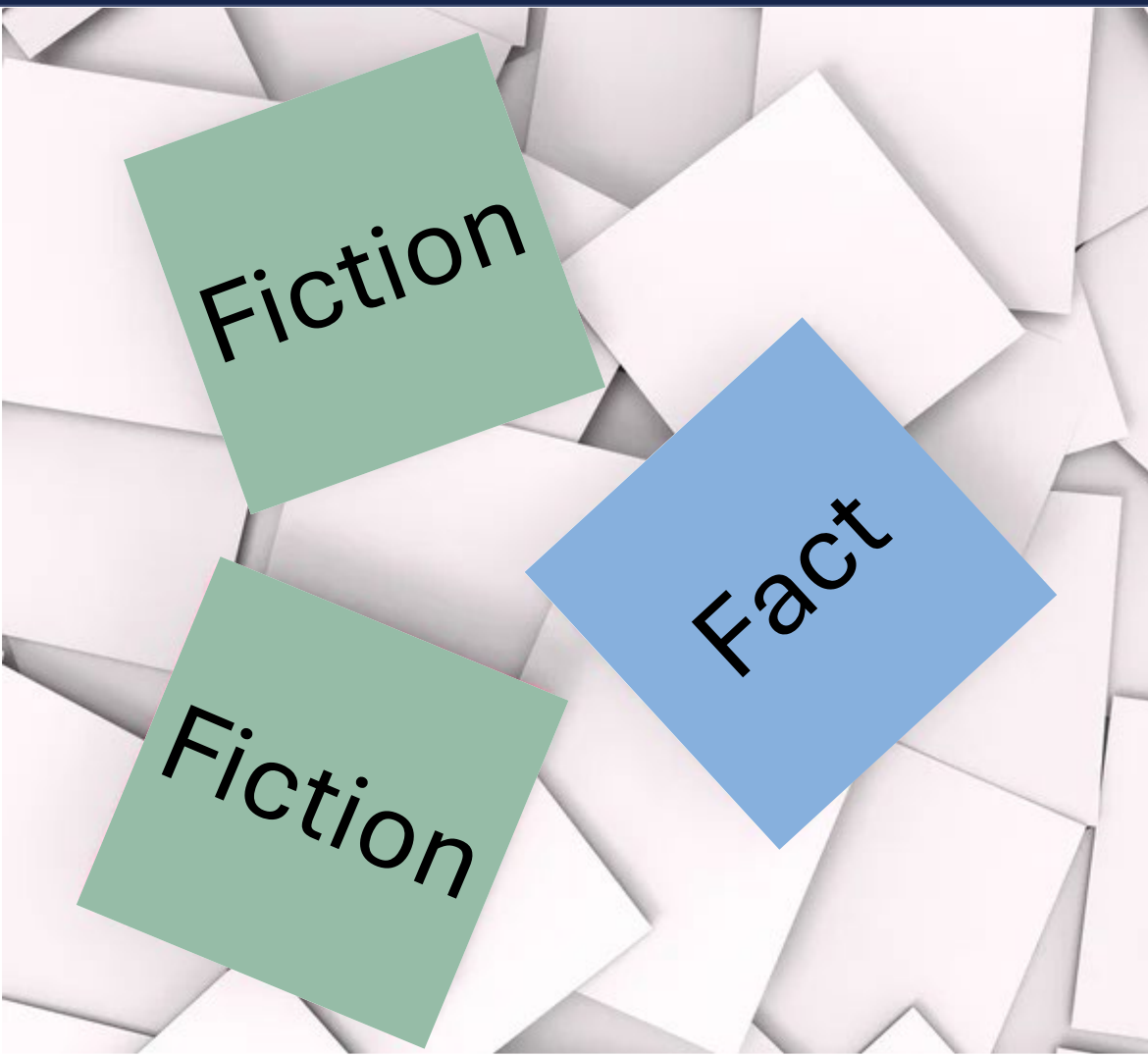
presented by

Julie Czappa

USDA SFHGLP, Lender & Partner Activities Branch

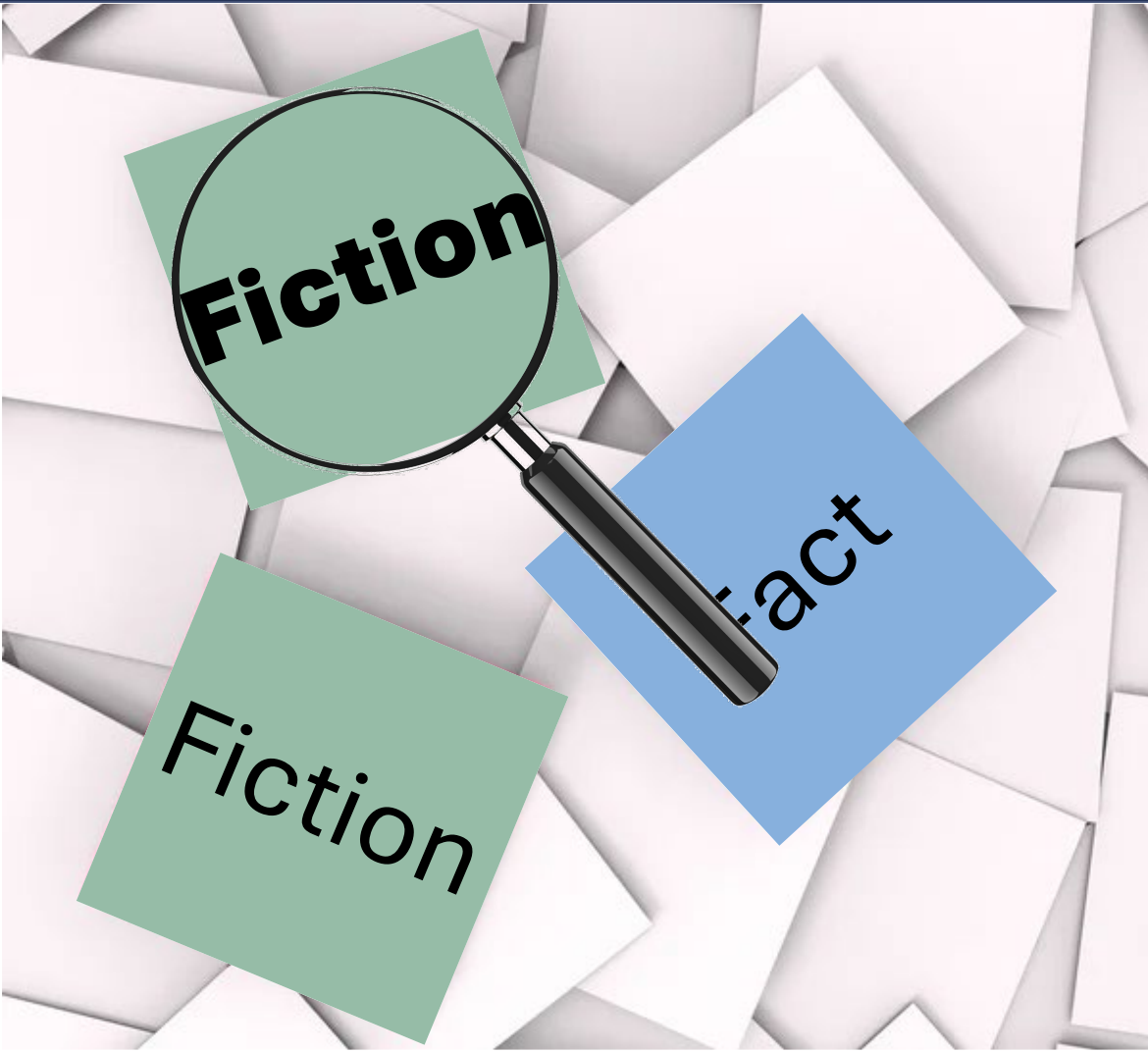
Ratios

FACT OR FICTION



Applicants are considered to have repayment ability if their proposed monthly housing expense does not exceed 29% of their repayment income.

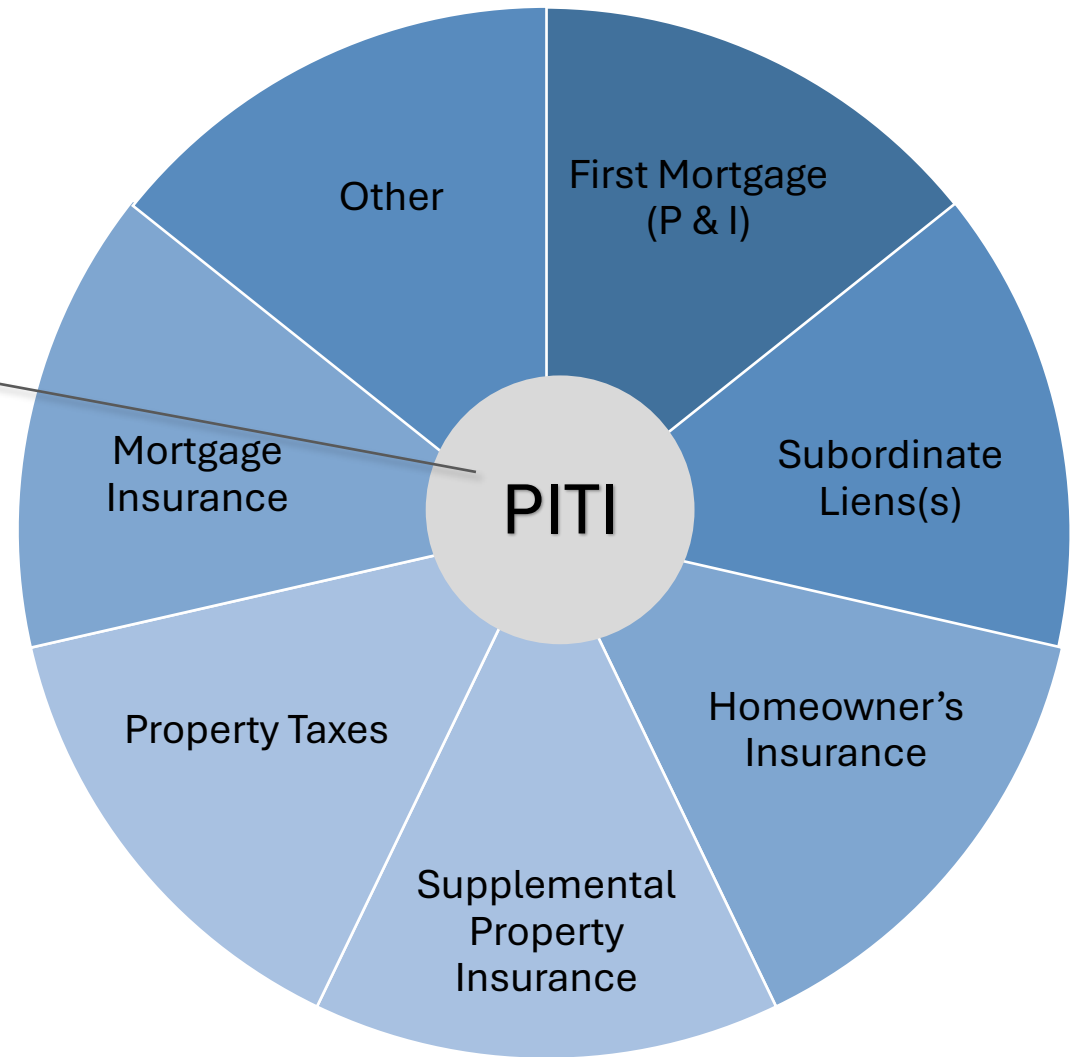
FACT OR FICTION



- As of August 5, applicants are considered to have repayment ability if their proposed monthly housing expense does not exceed **34%** of their repayment income.

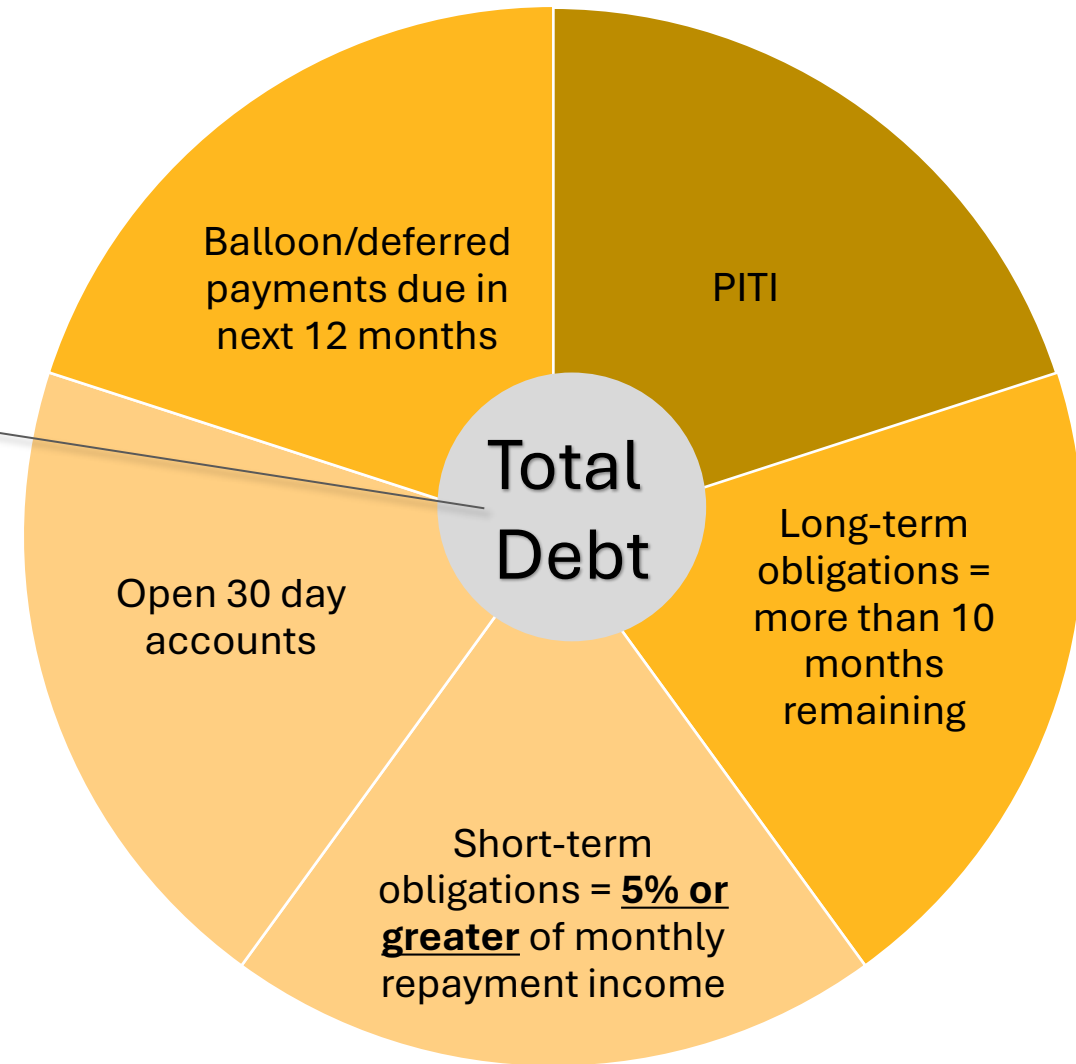
PITI

34% ~~29%~~



Total Debt Ratio

41%



Installment Accounts

- Auto, personal, secured/ unsecured loans, etc.

Accounts with
fixed payments



- **Include:** Monthly payment.
- **Omit:** 10 or less months remaining **IF** payment does not exceed **5%** of monthly repayment income.

Payment



- Installment debt may be paid down to 10 months or less.

Paying down debt



Revolving Accounts

- Credit cards, lines of credit, secured/unsecured loans, etc.

Revolving
accounts



- Monthly payment listed on credit report or creditor verification.
- 5% of balance if no payment is listed.

Payment:
Outstanding
balance



- No estimated payment required.
- Account is not required to be closed.

Payment: No
outstanding
balance



Open 30-Day Accounts

- Credit report may be utilized to document the applicant has paid the outstanding balance for the previous 12 months.

Documentation



- Late pays reported in last 12 months.
- **Include:** 5% of outstanding debt.

Payment: Late
pays



- No late pays reported in last 12 months.
- Not required to be included in the TDR.

Payment: No late
pays



Court Ordered Debts

Child Support, Alimony, Garnishments, Etc.

- Must include unless the applicant has a release of liability.

Release of
liability



- **Include:** Monthly payment.
- **Omit:** 10 or less months remaining **IF** payment does not exceed **5%** of monthly repayment income.

Payment



- Lender will manually enter as an “Other” liability.
- Specify type of obligation.
- Confirm repayment agreement is current.

GUS transactions



Student Loans

Regardless of the payment status, lenders must use:



Payment above “0”: Use amount on credit report or the actual documented payment.



Payment is “0”: Use 0.50 percent of the outstanding loan balance documented on the credit report or creditor verification.



Student loans in the applicant’s name alone but paid by another party remain the legal responsibility of the applicant.



“Forgiveness” plan/program remain the **legal responsibility** of the applicant until they are **released of liability** from the creditor.



Mortgages

Rental Property

(Rental income: “Repayment” Only count if received for 24 months or more; “Annual” Always include.)

Credit report late payment (last 12 months)

=

Count full mortgage liability & all associated costs

No Release of Liability

Borrower remains on Promissory Note

Exclude only if no late payments in last 12 months

Divorce

Obtain copies of legal separation / divorce documents

Exclude only if no late payments in last 12 months

Co-signed Obligations

- **Include:** Paid by applicant at any time during previous 12 months.
- **Exclude:** Another party has successfully made ALL payments during previous 12 months.

Payment



- Acceptable evidence may include canceled checks, money order receipts, or bank statements of the co-obligor.

Documentation



- **Include:** Any late payments in previous 12 months.
- **Exclude:** Evidence from creditor that they won't pursue collection against the applicant if other party defaults.

Late pays



Debts identified as “Individual” on credit report: Must include regardless of who is making the payment.

Business Debts

- **Include:** Paid from personal account.
- **Exclude:** If evidenced it's paid through a business account.

Payment



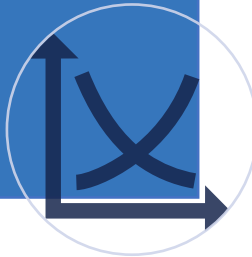
- Acceptable evidence includes canceled checks or bank statements from a business account for the previous 12 months.

Documentation



- Payments paid by the business must be included on the cash flow analysis and/or profit and loss statement, when applicable.

Business statements



Non-Purchasing Spouse Debts

Community Property States

- **Include:** Debts of a non-purchasing spouse unless excluded by state law.

Payment



- Lender must cite the specific state statute in the permanent case file.

Documentation



- Approved lenders are responsible to confirm state laws are met.

State laws



Community property states: Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington, and Wisconsin

Expense Allowances

- Does **not** cancel out a monthly debt for an automobile or expense loan/debt.

Expense
allowance
loan/debt



- **Include:** Full amount of the monthly debt associated with the expense (such as a car or equipment payment).

Payment



- Refer to Chapter 9 for guidance on calculating income for expense allowances.

Handbook
guidance



NOTE: For annual income, include amounts documented on the pay statements as taxable gross earnings that will be received in the ensuing 12 months.

Balloon/Deferred Payments

- **Payment in full due upon their due date?**
- Include a monthly payment.

Payment Due



- **Payment in full due within 12 months?**
- Evaluate complete loan application to determine applicants' repayment ability.

Payment Due



- **Payment unknown?**
- Obtain documentation from the creditor to establish a monthly payment or
- 5% of outstanding balance.

Payment Due



Tax Repayment Agreements

- Federal or State income tax repayment plan payments.

Tax repayment
plans



- **Include:** Monthly payment.
- **Omit:** 10 or less months remaining **IF** payment does not exceed **5%** of monthly repayment income.

Payment



- Refer to Chapter 10 for Federal Income Tax agreement eligibility.

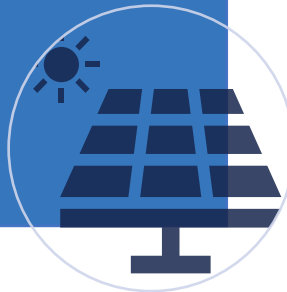
Handbook
guidance



Lease Payments

- Lease payments:
Auto, solar,
energy, etc.

Lease payments



- **Include:** Monthly
payment
regardless of
months remaining
on the contract.

Payment



Debt Management Plans

- **Include:** Monthly payment regardless of months remaining in the plan.

Payment



- Refer to Chapter 10 for guidance on credit exception and documentation requirements.

Handbook guidance



Debt Ratio Waivers

Debt Ratio Waivers

Purchase Transactions – Ratios



TOTAL DEBT RATIO

May exceed
41%

Strong compensating
factors to support
higher repayment
ability.

PITI RATIO

May NOT exceed
34%

No waivers are
permitted to increase
the PITI ratio above
34% for purchase
transactions.



Debt Ratio Waivers

Purchase Transactions – File Types

GUS “Accept”
and “Accept Full
Documentation”

Do **NOT** require debt ratio
waivers.

File
Type

GUS “Refer”,
“Refer with
Caution” and
Loans not
supported by
GUS

Lender must document
eligible compensating factors
to support a debt ratio waiver.

Debt Ratio Waivers

Purchase Transactions – Required Conditions

1

PITI ratio
cannot exceed
34%

2

Total debt ratio
cannot exceed
44%

3

Validated credit
score of ALL
applicants must
be **680 or greater**

4

1 acceptable
compensating
factor must be
present



Debt Ratio Waivers

Purchase Transactions – Compensating Factors

Accumulated Savings or Cash Reserves Available Post Loan Closing

- Equal to or greater than 3 months of PITI payments. Cash on hand is not eligible.

Employment

- ALL applicants have been continuously employed with their current primary employer for a minimum of 2 years. Social Security benefits or retirement income may be considered. Self-employment is not eligible.

Proposed PITI

- Does not exceed the applicant's current verified housing expense by more than \$100 or 5%, whichever is less, for the 12-month period preceding loan application. No more than one 30 day late allowed.

Energy Efficient Home

- Subject property is an energy efficient home based on the International Energy Conservation Code (IECC) standards. Lender is responsible for verifying and documenting evidence in permanent loan file.

Debt Ratio Waivers

Refinance Transactions – File Types

GUS “Accept” and
“Accept Full
Documentation”

Do **NOT** require debt ratio
waivers.

Supporting
documentation must be
submitted to the agency.

GUS “Refer”,
“Refer with
Caution” and
Loans not
supported by GUS

“Streamlined-
Assist”

Do not require debt ratio
calculations, therefore, no
debt ratio waiver is required.



Debt Ratio Waivers

Refinance Transactions – Compensating Factors

Credit Score

- Validated credit score of 680 or higher for all applicants.

Accumulated Savings or Cash Reserves Available Post Loan Closing

- Equal to or greater than 3 months of PITI payments. Cash on hand is not eligible.

Employment

- Continuous employment with the current primary employer.

Proposed PITI

- Does not exceed the borrower's current verified mortgage payment by more than \$100 or 5%, whichever is less, for the 12-month period preceding loan application.

Energy Efficient Home

- Subject property is an energy efficient home based on the International Energy Conservation Code (IECC) standards. Lender is responsible for verifying and documenting evidence in permanent loan file. (*HB-1-3555, Chapter 11*)

Additional Ratio Guidance



Increase Purchasing Power

Pay Down Debt

- Pay down installment debts to 10 payments or less.

Mortgage Credit Certificates

- Refer to chapter 9 for MCC guidance and GUS data entry.

Funded Buydown Accounts

- Refer to chapter 11 for guidance on temporary and permanent buydowns.

Section 8 Homeownership Voucher (not rental vouchers)

- Refer to chapter 9 for voucher guidance and GUS data entry.



Obligations NOT Included in Debt-to-Income Ratios

Not limited to...

- Medical collections and medical payments
- Federal, state, and local taxes, unless a payment plan is in place
- Retirement contributions such as 401(k) accounts
- Utilities
- Insurance (other than property)
- Union dues
- Open accounts with zero balances
- Child care
- Voluntary deductions

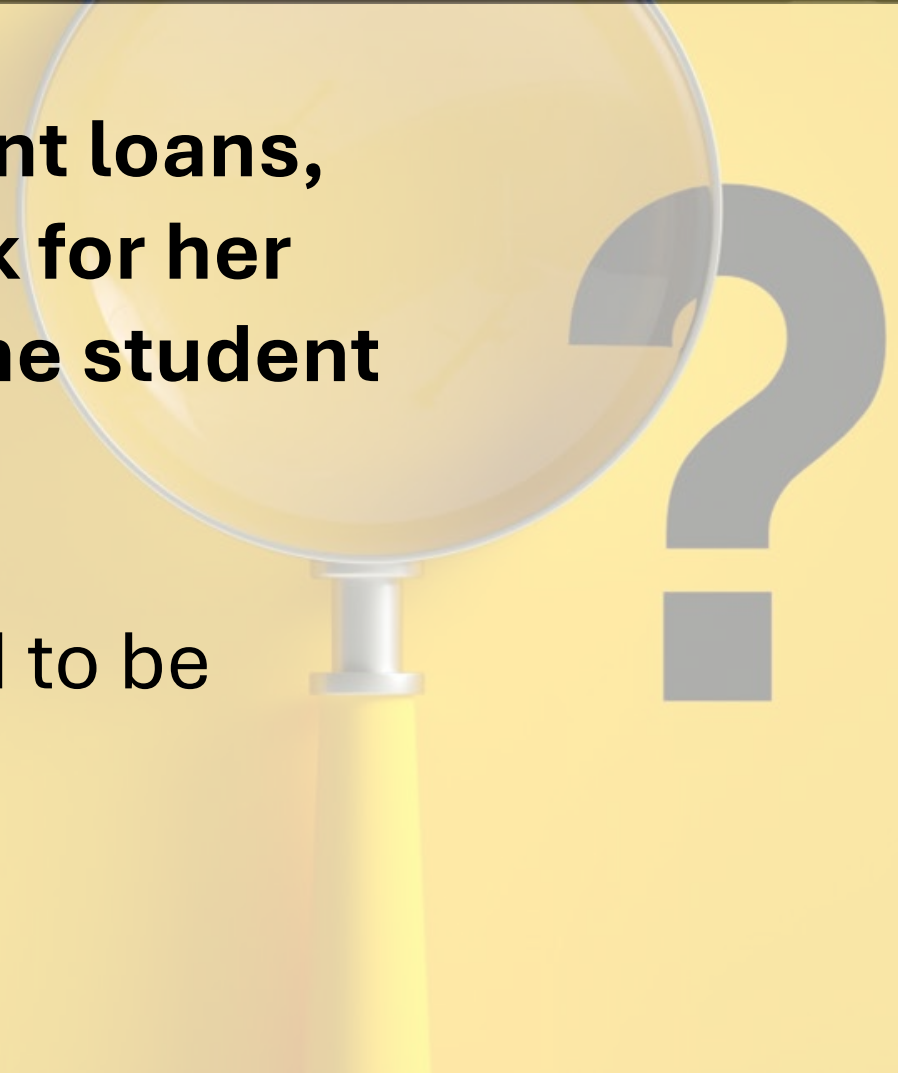
Trivia Time



Question

An applicant currently has student loans, however, if she continues to work for her employer for the next 10 years, the student loans will be forgiven.

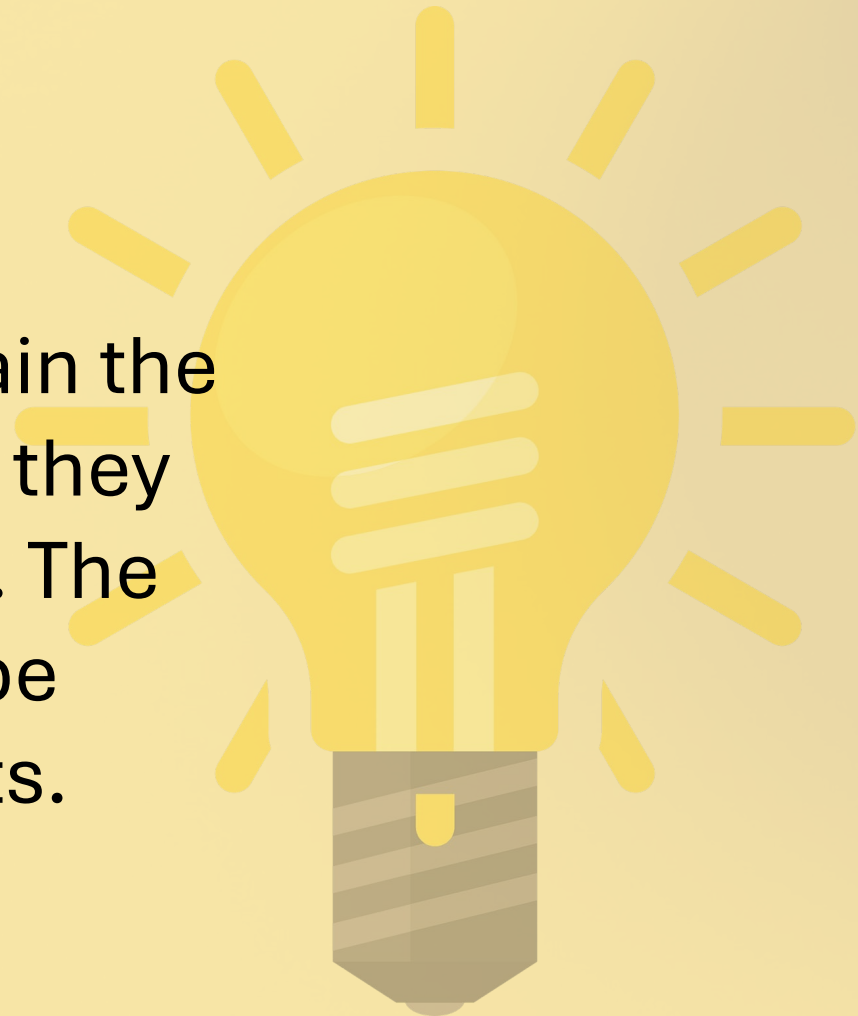
Is a student loan payment required to be considered in this scenario?



Answer

Yes.

Student loans in a forgiveness plan remain the legal responsibility of the applicant until they are released of liability from the creditor. The applicable student loan payment must be included in the applicant's monthly debts.

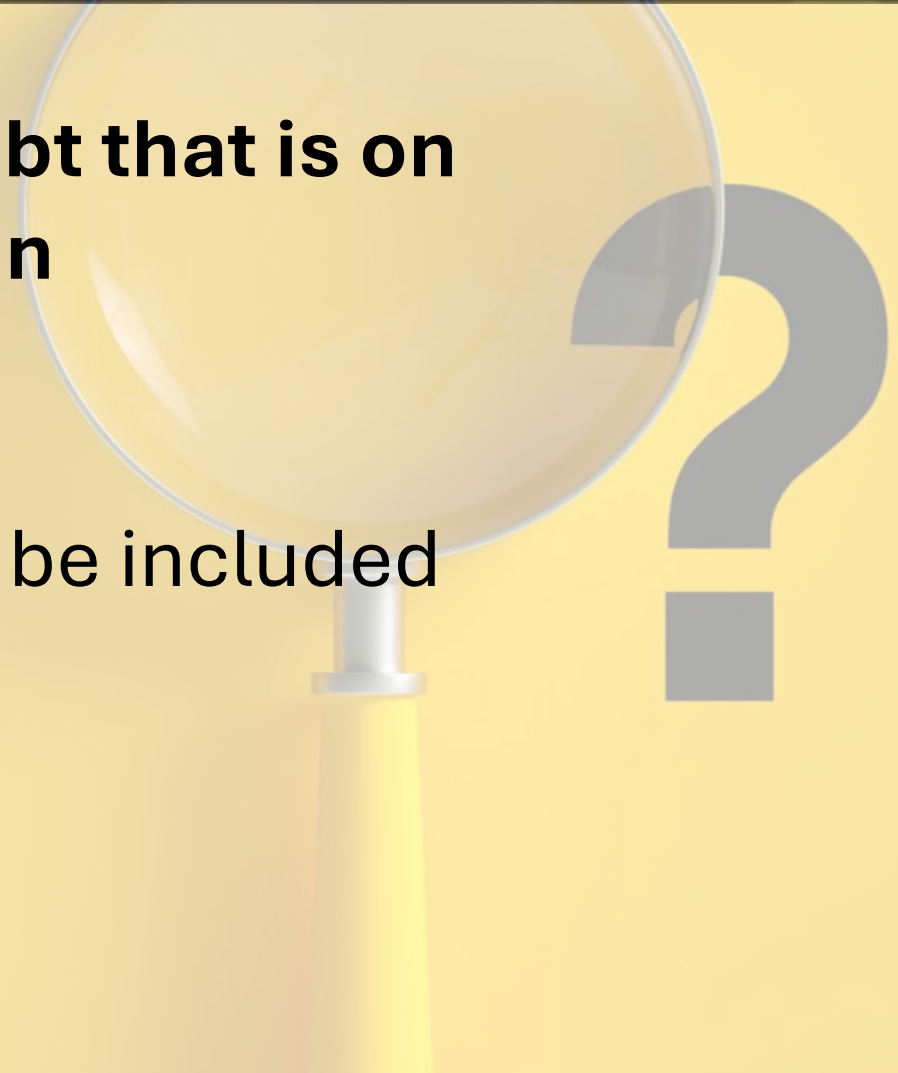




Question

An applicant has student loan debt that is on an Income Based Repayment Plan and currently has a \$0 payment.

Does the student loan still need to be included in monthly debts?



Answer

Yes.

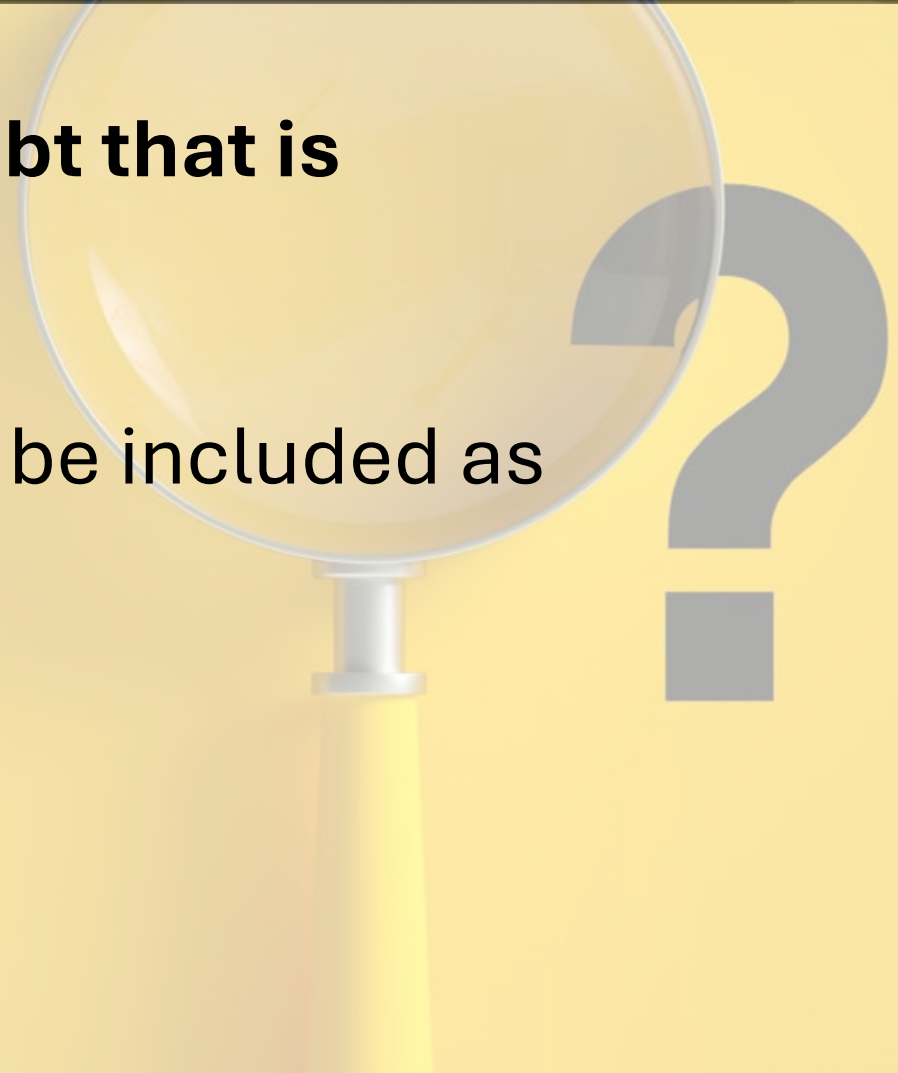
When the credit report or creditor verification indicate a payment of zero, lenders must use one half (.50) percent of the outstanding balance in the total debt ratio.



Question

An applicant has student loan debt that is currently in deferment.

Does the student loan still need to be included as a liability?



Answer

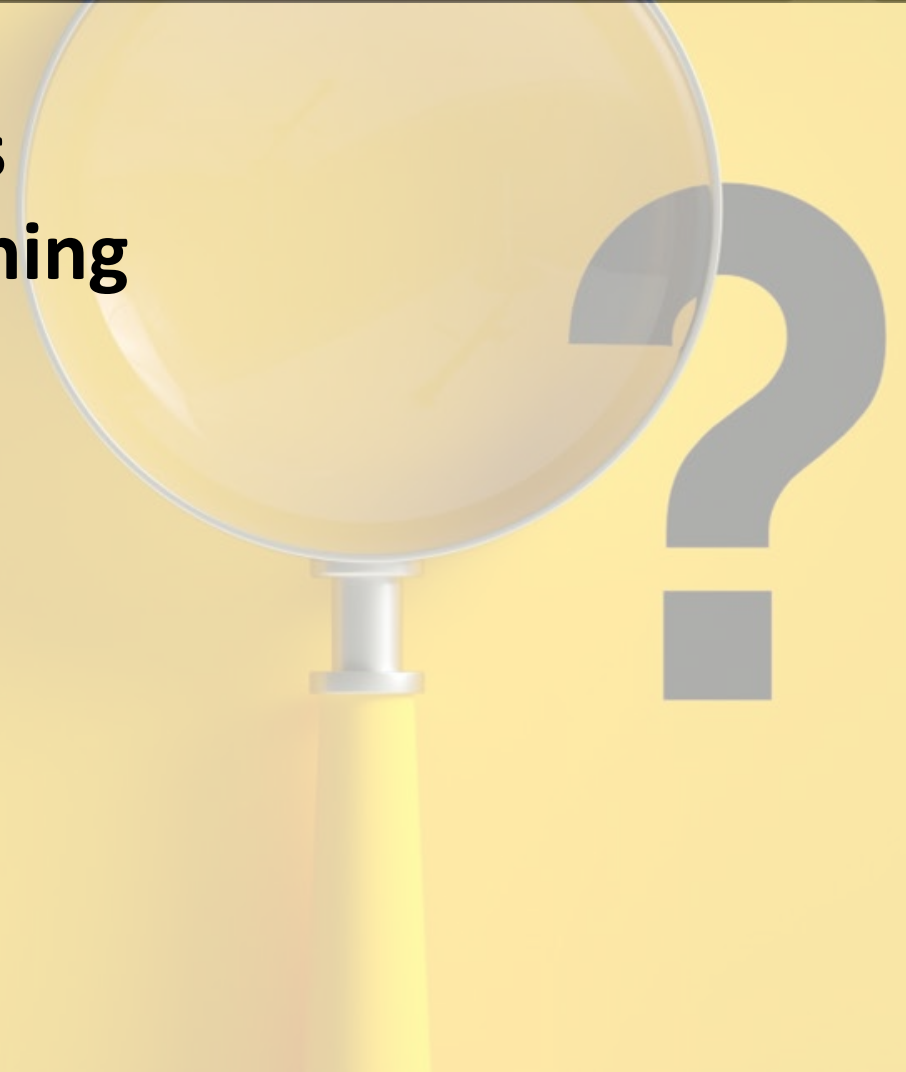
Yes.

Student loans in deferment must use the payment amount reported on the credit report, the actual documented payment when it is greater than zero, or one half (.50) percent of the outstanding balance when the payment is zero.



Question

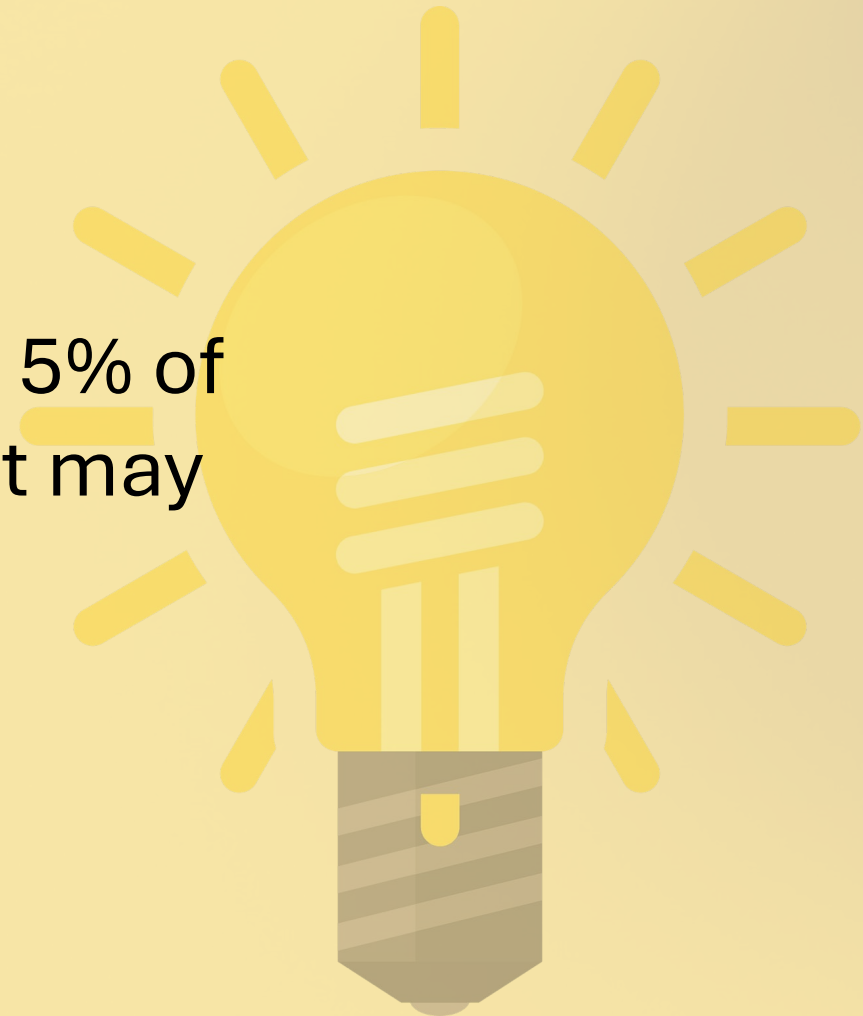
Can an installment liability with less than 10 months of payments remaining be omitted?



Answer

Maybe.

If the monthly payment does not exceed 5% of the monthly repayment income, the debt may be excluded.



Question

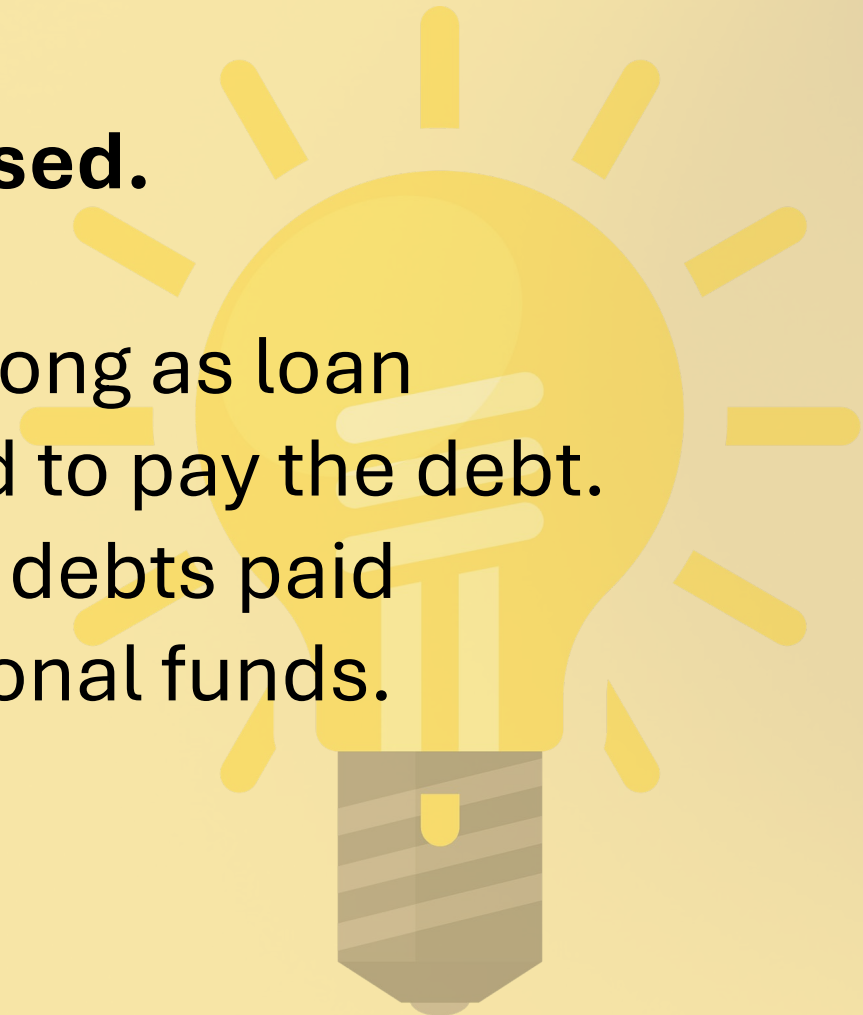
Can an applicant pay off a debt at closing to qualify?



Answer

Maybe. Depends on source of funds used.

Applicants may pay debts at closing as long as loan funds or seller concessions are not used to pay the debt. It is the lender's responsibility to ensure debts paid at closing are out of the borrower's personal funds.





Question

An applicant is divorced, and the ex-spouse was given responsibility of a few credit cards and an installment loan, evidenced by the divorce documents. The debts are showing on applicant's credit report and are paid as agreed with no late payments.

Can these debts be excluded?

Answer

Maybe. Depends on payment history and length of time.

Co-signed obligations must be considered in the total debt ratio unless the applicant provides evidence another obligor has made the payment on time for the previous 12 months prior to loan application.

OR

The applicant can provide conclusive evidence from the creditor that they will not pursue debt collection against the applicant should the other party default.

Question

Does the payment on an authorized user account need to be included as a liability?



Answer

No.

If the applicant is solely an authorized user and has no legal liability to repay the debt, it may be omitted.

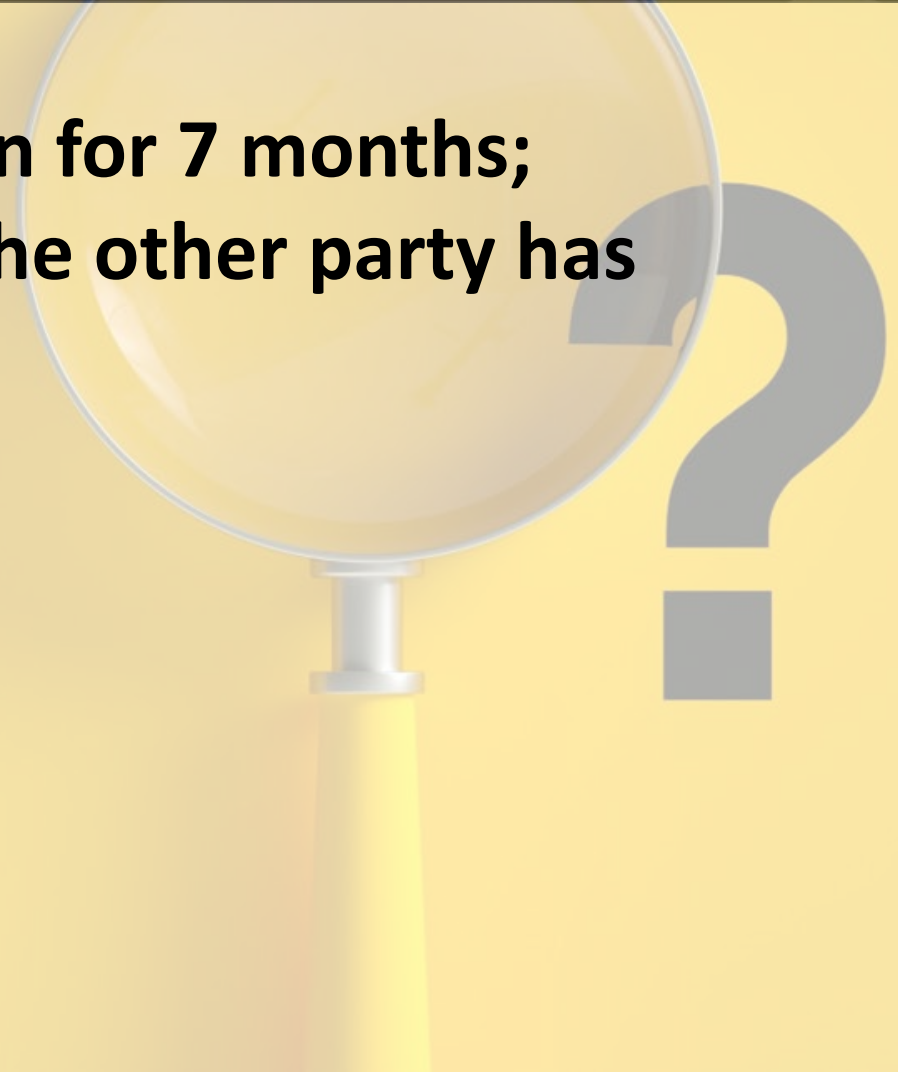




Question

A co-signed debt has only been open for 7 months; however, we have documentation the other party has made all payments.

Can this debt be excluded?



Answer

No.

A full 12-month history showing another party is paying the debt is required to omit the payment.



Lender Toolkit



LINC Training Library

Guaranteed Underwriting System (GUS)
Lender Approval
Single Family Housing GLP Policy Desk
Lender Training
Loan Closing
Loan Origination
Loan Servicing
GUS Lender Test Environment (LTE)
SFHGLP System Access and Security Guide
"New" Lender Training Schedule

USDA LINC Training & Resource Library

The Single Family Housing Guaranteed Loan Program has prepared a comprehensive library of resources for all leading partners. In the categories below you have access to all of the training, resources, and important forms for program participation.

If you have questions or need additional information, please contact us: **Contact Information** [SFHGLP Contact List](#)

Lender Approval
[Learn More](#)

Loan Origination
[Learn More](#)

Single Family Housing GLP Policy Desk
[Learn More](#)

Lender Training
[Learn More](#)

Loan Closing
[Learn More](#)

Guaranteed Underwriting System
[Learn More](#)

Loan Servicing
[Learn More](#)

Email Updates

An archive of previously released email bulletins and program updates are outlined below. Stay connected with the latest information by [subscribing to our email](#).

Resources

<https://www.rd.usda.gov/resources/usda-linc-training-resource-library>

Save it as a favorite to access quick answers!

Access HB-1-3555, policy resources, GUS user guides and training, loan closing user guide, loan servicing

resources and more

Sign up for GovDelivery notifications

HB-1-3555

The screenshot shows the USDA RD Handbooks website. The header features a green field with trees and the word "Handbooks" in a black box. Below the header, there is a navigation menu on the left with links like "About RD", "State Offices", "Programs & Services", "Newsroom", "Resources", "Directives", "Administrative Notices", "Electric Sample Documents", "Form Letters", "Guide Letters", "Handbooks", "Informational Publications", "Instructions", "Procedures Notices", "Unnumbered Letters", "Environmental Studies", "Forms", "Publications", "Publications for Cooperatives", "Regulations and Guidance", "Rural Data Gateway", "USDA LINC Training & Resource Library", and "Contact Us". The main content area displays "Below are handbooks information" and lists two handbooks: "HB-1-3550 Direct Single Family Housing Loans and Grants - Field Office Handbook" and "HB-1-3555 SFH Guaranteed Loan Program Technical Handbook". The "HB-1-3555" handbook is highlighted in yellow. Below it, there is a "Table of Contents" section with a list of chapters and their topics.

Consolidated version (large document may take long to load)	
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

HB-1-3555

<https://www.rd.usda.gov/resources/directives/handbooks#hb13555>

Bookmark It!

Use Ctrl-F to find answers quickly!

HB-1-3555

The screenshot shows the USDA Rural Development website's 'Handbooks' section. The page has a green header with the word 'Handbooks' in white. Below the header is a navigation bar with links: HOME, RESOURCES, and DIRECTIVES. A left sidebar contains a list of links including About RD, State Offices, Programs & Services, Newsroom, Resources (highlighted), Acronyms, Directives, Administrative Notices, Electric Sample Documents, Form Letters, Guide Letters, Handbooks (highlighted), Informational Publications, Instructions, Procedures Notices, Unnumbered Letters, Environmental Studies, Forms, Publications, Publications for Cooperatives, Regulations and Guidance, Rural Data Gateway, USDA LINC Training & Resource Library, and Contact Us. The main content area is titled 'Below are handbooks information' and lists two handbooks: 'HB-1-3550 Direct Single Family Housing Loans and Grants - Field Office Handbook' and 'HB-1-3555 SFH Guaranteed Loan Program Technical Handbook'. The second handbook is highlighted in yellow. Below it is a 'Table of Contents' for the selected handbook, listing 15 chapters from Overview to Submitting the Application Package.

Handbooks

HOME | RESOURCES | DIRECTIVES

About RD
State Offices
Programs & Services
Newsroom
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Acronyms
Directives
Administrative Notices
Electric Sample Documents
Form Letters
Guide Letters
Handbooks
Informational Publications
Instructions
Procedures Notices
Unnumbered Letters
Environmental Studies
Forms
Publications
Publications for Cooperatives
Regulations and Guidance
Rural Data Gateway
USDA LINC Training & Resource Library
Contact Us

Below are handbooks information

HB-1-3550 Direct Single Family Housing Loans and Grants - Field Office Handbook +

HB-1-3555 SFH Guaranteed Loan Program Technical Handbook -

Consolidated version (large document may take long to load)

Table of Contents

Chapter 1	Overview
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HB-1-3555

<https://www.rd.usda.gov/resources/directives/handbooks#hb13555>

Bookmark It!

Use Ctrl-F to find answers quickly!

FAQs

FAQ

Frequently Asked Questions

Appraisal and Property Requirements

Appraisal ([HB-1-3555 Chapter 12](#))

- **Do appraisers need to be on an approved list to complete appraisal reports for Rural Development loans?**

No, Rural Development does not maintain a list of approved appraisers. It is the responsibility of the lender to select qualified appraisers that are properly licensed or certified, as appropriate, in the State in which the property is located.
- **How long is an appraisal valid?**

The appraisal must have been completed within 150 days of loan closing. Appraisals that are older than 150 days at loan closing are eligible for an appraisal update to extend the appraisal an additional 90 days.
- **The lender has determined there are significant concerns with an appraisal. Can a second appraisal be ordered?**

Rural Development does not require that the first appraisal ordered is the one that must be utilized. The approved lender may seek an alternate appraisal if they determine the initial appraisal report is unacceptable.

FAQs

<https://www.rd.usda.gov/media/file/download/rd-sfh-faqloanorigination.pdf>

Bookmark It!

Use Ctrl-F to find answers quickly!

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) File-Specific Questions by phone:	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, WP, 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 *833-314-0168, ext. 2
Lender Self-Report	sfhgld.qualityassurance@usda.gov
Program Training	sfhgld.lenderpartner@usda.gov
Program Marketing and Outreach	
General Loan Scenario Questions	sfhgld.program@usda.gov or *833-314-0168, ext. 4
Loan Policy/Regulation/Handbook	
Turn Times	*833-314-0168, ext. 1
Lender Approval/Recertification	sfhgld.servicing@usda.gov
Loan Servicing	
Technical Issues: GUS	RD.HD@USDA.GOV or (800) 457-3642 option 2, option 2
Technical Issues: eAuth or Login.gov	https://www.eauth.usda.gov/eauth/b/usda/fag ; Select Public Customer FAQs
Loss Claims	guarantee.svc@usda.gov
Monthly and Quarterly Status Reporting	RD.SO.HSB@usda.gov
GUS User Agreements	
Adding/Removing Security Administrator (SFH Guaranteed Loan Program Automated Systems)	Form Instructions: https://www.rd.usda.gov/files/RD-SFH-AdditionalLenderSecurity.pdf

*Phone System Availability: 9:00 am to 3:30 pm ET

TOOLS AND 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/subscriber/new>

Revised 05.08.2024

We're here to help.

<https://www.rd.usda.gov/media/file/download/sfhgldcontactlist.pdf>

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!

Single Family Housing GLP Policy Desk

HOME › RESOURCES › USDA LINC TRAINING & RESOURCE LIBRARY

LINC Training Library

Guaranteed Underwriting System (GUS)

Lender Approval

Single Family Housing GLP Policy Desk

Lender Training

Loan Closing

Loan Origination

Loan Servicing

GUS Lender Test Environment (LTE)

SFHGLP System Access and Security Guide

Lender Training Schedule

English

Welcome to The Policy Desk! Rural Development recognizes the importance of obtaining input from our stakeholders on proposed policy revisions, prior to those updates becoming effective. The Policy Desk was created with that goal in mind. Here, you will find proposed policy revisions, as well as a mechanism to provide comments to Rural Development on these proposals. We encourage all stakeholders to review these proposals and provide your comments using the link below, or by emailing the Policy Desk at sfhgld.policydesk@usda.gov. Thank you for your continued support of Rural Development's Single-Family Housing Guaranteed Loan Program!

Announcements

None at this time.

Archive of Previous Proposals

[Chapter 11 - Ratio Analysis Draft Advance](#)

[Chapter 11 - Ratio Analysis Markup](#)

[Chapter 17 - Regular Servicing Performing Loans Advance Copy](#)

[Chapter 17 - Regular Servicing Performing Loans Markup Version](#)

[Chapter 18 - Servicing Non-Performing Loans Advance Copy](#)

[Chapter 18 - Servicing Non-Performing Loans Markup Version](#)

[Chapter 19 - Loss Claims Advance Copy](#)

[Chapter 19 - Loss Claims Markup Version](#)

[Return to top](#)

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Federal Register Notices

NEW ADDITION “LINC Training & Resource Library”

“Single Family Housing GLP Policy Desk”

Opportunity for **you** to share your comments before policy revisions go into effect!

Watch your inbox for those GovDelivery notifications!



Thank
You



www.rd.usda.gov

USDA is an equal opportunity provider, employer, and lender.

