

Single Family Housing Guaranteed Loan Program HB-1-3555 Chapter 11 Ratio Analysis Revision Guide

HB-1-3555 Chapter 11 Ratio Analysis has been revised to clarify credit accounts, ratio thresholds, debt ratio waiver exceptions, and compensating factors.

11.2 B. The Total Debt Ratio

~~Obligations for child care, voluntary contributions to retirements such as a 401K, and open accounts with zero balance, are not considered a debt.~~

The lender must document an applicant's debt through various records including but not limited to: a credit report, direct or third-party verifications, court documents, and verification of deposits, electronic verifications, etc. -for loans- All applicant open debts/accounts (including non-medical collection accounts, and judgments) incurred through the note date must be included in the total debt calculation and documented in GUS and on the loan application as applicable. captured under liabilities on the application. Monthly ~~The following obligation expenses must be included in the monthly debts. -~~

Removed: "Obligations for child care...." This sentence was removed because these topics are addressed in greater detail in this section.

Clarified: Minor clarifications were made to accept electronic verification of debts and distinguish non-medical collections as open accounts that may need to be considered in the monthly debts.

PITI

- Principal, interest, real estate taxes, hazard insurance, monthly portion of the annual fee, HOA fees, special assessments, etc. -

11.2 B. PITI

Clarified: The PITI monthly debt has been expanded to include potential items that are included in this total.

Installment accounts Long term obligations

- Accounts that will be paid in full through a specified number of fixed payments such as auto, personal, secured/unsecured, etc. must have the monthly payment included.
- Installment debt may be paid down to ten months or less of remaining debt.
- ~~—If ten or less with more than ten months of repayment remains per the ing on 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, presented at underwriting. This may include all installment loans, alimony, child support or separate maintenance payments, student loans and other continuing obligations.~~

11.2 B. Installment accounts

Revised: “Long Term Obligations” has been revised to “Installment accounts.” Installment accounts did not have a specific section in HB 11.

Clarified: Installment accounts are defined with examples provided.

Clarified: Installment debts with ten or less months of repayment may be excluded **IF the payment does not exceed five percent of the monthly repayment income.** The section in bold is the new “significant impact” language.

The former “significant impact” language that was hard to locate in the previous HB 11 version, but in this new revision it will be included for each monthly debt as applicable.

Example: Monthly debt payment: \$165. Monthly repayment income: \$2,300.
 $\$2,300 \times 5\% = \$115.$
\$165 is greater than \$115, therefore the monthly debt must be included in the debt ratio.

Example: Monthly debt payment: \$165. Monthly repayment income: \$3,500.
 $\$3,500 \times 5\% = \$175.$
\$165 is less than \$175, therefore the monthly debt may be excluded from the debt ratio.

Revolving accounts-

- ~~Credit cards, lines of credit, secured/unsecured, etc. must include t~~The minimum monthly payment ~~documented on the credit report or other creditor verification in the total debts.~~ ~~is required for all revolving credit card debts.~~
- ~~If the credit report shows an outstanding balance, but no specific~~ minimum monthly payment, the payment ~~must will be be~~ calculated ~~as five 5~~ percent of the balance ~~as~~ reported on the credit report. ~~If t~~
- ~~The lender may obtain s a copy of the a~~ current ~~account~~ statement ~~or creditor verification to document reflecting~~ the actual monthly payment ~~and include that ,that amount in the monthly debts. ,must be used for qualifying purposes. The lender must retain this documentation in their permanent loan file.~~
- ~~Revolving accounts with no outstanding balance on the credit report~~ do not require an estimated payment to be included in the debt ratio.
- ~~USDA will not require a r~~Revolving account ~~s that will be paid in full prior to loan closing are not required~~ to be closed.

11.2 B. Revolving accounts

Clarified: Examples of revolving accounts are listed.

Clarified: Flexibility is provided to verify an acceptable monthly payment for the account.

Court Ordered Debts: Child support, alimony, garnishments, etc.

- Court ordered debts ~~Applicants obligated to pay child support, alimony, garnishments, or other court ordered debts~~ must have the payment included in the total debt ratio unless ~~– If the applicant has a release of liability from the court/creditor, and acceptable evidence is documented, obtained, the debt can be excluded.~~
- Lenders will utilize select pages from the applicable agreement/court order to document the required monthly payment due and the duration of the debt.
- Court ordered debts with ten or less payments remaining may be excluded if the payment does not exceed five percent of the monthly repayment income.
- For GUS transactions, the lender will manually enter the obligation(s) as a monthly liability, on the “Additional Expenses” on the “Assets and Liabilities” page. A manual entry of this monthly obligation does not require an underwriting recommendation of “Accept” to be downgraded to a “Refer.”
- Lenders must confirm ~~will ensure~~ repayment agreements are current. Refer to Chapter 10 for court ordered debt guidance and program eligibility.

11.2 B. Court Ordered Debts: Child support, alimony, garnishments, etc.

Revised: This section was re-named Court Ordered Debts.

Clarified: Court ordered debts with ten or less payments remaining may be excluded if the payment does not exceed five percent of the of the monthly repayment income.

Clarified: Lenders may refer to Chapter 10 for credit eligibility guidance for court ordered debts (e.g. delinquent child support, etc.).

Student loans-

- Lenders must include the required payment as applicable follows:
 - **Fixed payment loans:** A permanent amortized, fixed payment may be used in the debt ratio when the lender retains documentation to verify the payment is fixed, the interest rate is fixed, and the repayment term is fixed. The fixed payment will fully amortized/pay in full the debt at the end of the term.
 - **Non-Fixed payment loans:** Payments for deferred loans, Income Based Repayment (IBR), Income Contingent (IC), Graduated, Adjustable, and other types of repayment agreements which are not fixed must use the greater of the following:
 1. One half (.50) percent of the outstanding loan balance documented on the credit report or creditor verification, or
 2. The current documented payment under the approved repayment plan with the creditor. cannot be used in the total debt ratio calculation. One percent of the loan balance reflected on the credit report must be used as the monthly payment. No additional documentation is required.
- Student loans in the applicant's name alone but paid by another party remain the legal responsibility of the applicant. The applicable payment must be included in the monthly debts.
- Student loans in a "forgiveness" plan/program remain the legal responsibility of the applicant until they are released of liability from the creditor. The applicable payment must be included in the monthly debts.

11.2 B. Student Loans

Clarified: Fixed payment loans: Fixed payment student loans with fixed interest rates, terms, and payments will be fully amortized with the debt paid in full at the end of the term. A student loan with a \$92,538 balance and a stated monthly payment of \$35 is not a fixed term loan. $\$92,538 / \$35 = 2,643$ payments (a 220 year term), which is unreasonable.

Revised: Non-Fixed Payment loans: The required payment for non-fixed payment/rate/term loans is updated per the GovDelivery published September 23, 2019. All income based payments, graduated or adjustable schedules, etc. must use the greater of the following:

1. One half (.50) percent of the outstanding loan balance documented on the credit report or creditor verification, or
2. The current documented payment under the approved repayment plan with the creditor.

Please review the examples below.

Student Loan Balance: \$35,000.
Monthly payment reported on credit report: \$120.00

If the payment is documented as:	Use this payment:
Fixed payment, fixed term, fixed interest rate	\$120.00
Income Based Repayment (IBR), Income Contingent, Interest Only, etc.	\$175.00 (.50% of the balance is greater than the non-fixed payment)
Deferred or Forbearance	\$175.00 (.50% of the balance is greater than the non-fixed payment)
Any additional non-fixed payment arrangements	\$175.00 (.50% of the balance is greater than the non-fixed payment)

For any non-fixed payment, the lender must use the greater of:
 1. the stated payment on the credit report / documented payment from creditor or
 2. .50 percent of the loan balance.

Student Loan Balance: \$35,000.
Monthly payment reported on credit report: \$200.00

If the payment is documented as:	Use this payment:
Fixed payment, fixed term, fixed interest rate	\$200.00
Income Based Repayment (IBR), Income Contingent, Interest Only, etc.	\$200.00 (\$200.00 is greater than .50% of the balance)
Deferred or Forbearance	\$200.00 (\$200.00 is greater than .50% of the balance)
Any additional non-fixed payment arrangements	\$200.00 (\$200.00 is greater than .50% of the balance)

NEW/Clarified: Student loans that are individual accounts in the applicant’s name alone but are paid by another party continue to be the legal responsibility of the applicant. Individual accounts are not eligible to be excluded from the debt ratio when others make the payment. Joint accounts (those with more than one legally responsible party) are eligible to be excluded when required evidence of payments are documented. Refer to Cosigned obligations for more guidance.

NEW/Clarified: Student loans enrolled in forgiveness plans or programs continue to be the legal responsibility of the applicant until they are paid in full, forgiven in full, or a release of liability is issued. The applicable payment must be included in the ratios.

~~—Mortgages: Rental Property Previous mortgage~~

- 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.
- If the rent received does not cover all expenses (principal, interest, real estate taxes, hazard insurance, HOA fees, assessments, etc.) the remaining balance must be included in the monthly debts.
- The manual entry of a rental income loss to the monthly debts in GUS will not require an Accept loan file to be downgraded to a Refer.
- If the credit report reflects late mortgage payments on the rental dwelling in the 12 months prior to loan application, the full mortgage liability and all associated costs must be included in the monthly debts.
- Refer to Chapter 9 for rental income guidance.

11.2 B. Mortgages: Rental Property

NEW: The “Previous Mortgage” section has been revised to specifically address rental property, no release of liability, and divorce scenarios. This section is specific to retained rental property.

There is no change in guidance from the previous version of this Chapter. Refer to Chapter 9 for rental income guidance for annual and repayment income.

Mortgages: No Release of Liability –Previous m

- Mortgage liabilities disposed of through a sale, trade or transfer without a release of liability (i.e., borrower remains on the promissory note) must will be included in the total debt ratio unless evidence can be obtained to confirm the remaining party/new owner has successfully made the payment for the previous 12 months prior to loan application.
- Evidence may be reported through the credit report or verification from the creditor/servicer to document the payment history has been current for the 12 months prior to loan application.
- If there are late payments in the previous 12 months prior to loan application, the full mortgage obligation must be included in the monthly debt.
 - Documentation to be obtained by the lender includes:

11.2 B. Mortgages: No Release of Liability

NEW: This section will address mortgage liabilities that are not applicable to rental or divorce scenarios.

There is no change in guidance from the previous version of this Chapter.

Mortgages: Divorce

- In the case of a divorce, the lender must will obtain a copy of the legal separation agreement or divorce decree to document the remaining party/new owner responsible to pay all mortgage debts from the effective date of the decree forward.
- To exclude the mortgage debt, the lender must document the previous 12 months have been paid as agreed prior to loan application through the credit report or verification from the creditor/servicer.
- If there are late payments in the previous 12 months prior to loan application, the full mortgage obligation must be included in the monthly debts. If the loan was assumed, sold or traded without a release of liability, a copy of the assumption agreement (as applicable) and deed showing transfer of title out of the applicant's name will be obtained by the lender and retained in the lender's permanent file. And:
 - ~~Documented evidence the remaining party/new owner has been making regular payments during the previous 12 months with no history of delinquent payment on the loan during that time. Evidence may be reported through the credit report or the lender may verify from the servicer of the assumed loan, a payment history showing that the mortgage has been current during the previous 12 months.~~

11.2 B. Mortgages: Divorce

NEW: This section will address a previous mortgage that may have been awarded to another party in recorded court documents.

There is no change in guidance from the previous version of this Chapter.

~~—Debts of a non-purchasing spouse (NPS): For a~~

- Applicants who currently reside or are purchasing in a community property state must include the ,the debts of the NPS must be included in the applicant's total debt ratio unless specifically excluded by state law.
- Approved lenders are responsible to confirm state laws are met.

11.2 B. Debts of a non-purchasing spouse (NPS)

Clarified: Approved lenders are responsible to confirm state laws are met for NPS debt inclusion to debt ratios.

~~—Collection accounts:~~

- ~~• Refer to Chapter 10 for cCollection account guidance. s, as outlined in Paragraph 10.9 of Chapter 10 of this Handbook will be included in the total debt ratio.~~

~~—Judgment accounts:~~

- ~~• Refer to Chapter 10 for Federal and non-Federal judgment guidance. Judgment accounts with a repayment plan already established and a history of consistent repayment will be included as a long-term obligation. It may be excluded from the total debt ratio if less than 10 months of the repayment plan remains and the lender determines the debt does not have a significant impact on the repayment of the loan. Significant impact calculations are described in the short-term obligations section. A letter from the creditor or evidence on the credit report is required to validate the payment arrangements and payment history. Refer to Chapter 10, Section 10.10 for additional guidance on judgments.~~

~~—Charge-off accounts:~~

- ~~• Charge-off accounts are not required to have a payment included in the monthly debts. Refer to Chapter 10 for charge-off account guidance. debts written off and are not required to be included in the applicant's total debt ratio.~~

11.2 B. Collection, Judgment, and Charge-off accounts

Revised: Refer to Chapter 10 for credit consideration and applicable monthly debt amount(s).

The lender must determine credit eligibility. If the lender determines the applicant is an eligible credit risk, Chapter 10 includes guidance to include applicable payments, retain a GUS Accept underwriting recommendation, etc.

~~—Automobile aAllowances and eExpense aAccount pPayments:~~

- ~~• 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. The amount of actual expenditures exceeding the amount of automobile allowance or expense account payments will be treated as recurring debt. Lenders will utilize IRS Form 2106, Employee Business Expenses, for the previous two years and employer verification that the payments will continue as documentation to support the calculation. The applicant's monthly car payment will be treated as recurring debt and will not be offset by any car allowance.~~

11.2 B. Automobile allowances and expense account payments

Removed: Reference to IRS Form 2106 has been removed.

Clarified: Refer to Chapter 9 for annual and repayment income guidance for these allowances/expenses.

Tax repayment agreements

- Include Federal or State income tax repayment plan payments in the monthly debt.
- If ten or less months of repayment remains per the plan, the monthly debt may be excluded if the payment does not exceed five percent of the monthly repayment income.
- Refer to Chapter 10 for Federal Income Tax agreement eligibility.

11.2 B. Tax repayment agreements

NEW: This section is new to Chapter 11, but these payment plans would have always been required to be included in the debt ratio.

Clarified: A repayment plan with less than ten payments remaining may be excluded if the payment does not exceed five percent of the monthly repayment income.

Refer to Chapter 10 for credit eligibility.

Lease payments

- Auto, solar, energy, and additional lease payments must have the payment included in the monthly debt regardless of months remaining to pay on the contract.

11.2 B. Lease payments

NEW: This section is new to Chapter 11, but these lease payments would have always been required to be included in the debt ratio.

11.3 Debt Ratio Waivers and Compensating Factors

A. Purchase Transactions: Debt ratio waivers ~~for purchase transactions~~

GUS Accept loans:

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

GUS Refer, Refer with Caution, and mManually underwritten loans without GUS assistance:

~~— purchase transactions.~~ Agency approval of a lender's request for debt ratio waiver may be granted if the following conditions are met:

1. Acceptable ratio thresholds are met:

- a. The maximum PITI ratio ~~cannot exceed is greater than 29 percent, but less than or equal to 32 percent, accompanied by a TD ratio not exceeding 44 percent; or and~~
- b. The maximum TD ratio ~~cannot exceed is greater than 41 percent, but less than or equal to 44 percent, accompanied by a PITI ratio not exceeding 32 percent;~~

11.3 A. Purchase Transactions: Debt Ratio Waivers

Revised: The title of this section was revised from “Debt ratio waivers for purchase transactions.”

Revised: The guidance for GUS Accept loans was moved to the top of this section.

Clarified: The acceptable ratio threshold language was reduced. The maximum PITI is 32 percent. The maximum total debt is 44 percent. No change in guidance.

- The applicant(s) (all employed applicants) has been continuously employed with their current primary employer for a minimum of ~~two~~2 years. A “Request for Verification of Employment” (VOE) (Form RD 1910-5, comparable HUD/FHA/VA or Fannie Mae form, or other equivalent), or VOEs prepared by an employment verification service (e.g., The Work Number.) must be provided. Applicants that have received Social Security benefits or retirement income for two years may utilize this compensating factor with documentation to support the history of receipt of benefits. This compensating factor is not applicable for self-employed applicants.

11.3 A. Acceptable Compensating Factors and Supporting Documentation

NEW: In addition to being with the current employer for two years, an applicant that has received Social Security benefits or retirement income for two years may document this steady receipt of income as a compensating factor.

Debt Ratio Waiver Request and Agency Approval:

Debt ratio waivers must be requested and documented by the approved lender. The lender requests Agency concurrence with the debt ratio waiver by submitting a signed underwriting analysis that cites one or more of the above acceptable compensating factors. Lenders may utilize Fannie Mae 1008 / Freddie Mac 1077, "Uniform Underwriting and Transmittal Summary," or similar form. Evidence of the compensating factor, such as a VOR, VOD, and/or VOE, must be submitted to the Agency for approval.

Written approval of the debt ratio waiver request by the Agency is represented if a Conditional Commitment for Loan Note Guarantee is issued.

11.3 A. Acceptable Compensating Factors and Supporting Documentation

Clarified: No change in guidance, only a reminder inserted that when USDA issues a Conditional Commitment, the debt ratio waiver has been approved.

B. Refinance Transactions: Debt ratio waivers ~~for refinance transactions~~

GUS Accept loans:

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

GUS Refer, Refer with Caution, and ~~For~~ manually underwritten loans without GUS assistance:

Streamlined-assist refinance loans do not require debt ratio calculations, and therefore no debt ratio waiver.

Debt ratios for refinance loans are not limited to the maximum purchase debt ratio thresholds.

Non-Streamlined and Streamlined refinance loans require the lender to must ~~thoroughly~~ document the compensating factors that justify a debt ratio waiver.

~~Streamlined-assist refinance transactions do not require debt ratio [waivers]~~

11.3 B. Refinance Transactions: Debt ratio waivers

Revised: The title of this section was revised from "Debt ratio waivers for refinance transactions."

Revised: The guidance for GUS Accept loans was moved to the top of this section.

Revised: Some sentences have been moved or relocated. No change in guidance.

Clarified: It has been specifically stated that debt ratios for refinance loans are not limited to the maximum debt ratio thresholds (i.e. the purchase transaction thresholds of 32 percent for PITI and 44 percent for total debt). Borrowers who seek a refinance should be provided every opportunity to obtain a lower monthly payment while additional eligibility criteria must continue to be met.

~~Debt ratio waivers can be approved when acceptable compensating factors are present.~~ The following are examples of acceptable compensating factors for debt ratio waiver requests:

- ~~• Credit score of 680 or higher for each applicant. Credit scores of 680 and higher can be documented as a standalone compensating factor for a debt ratio waiver request, if no additional risk layers are present (e.g., adverse credit, or payment shock, etc.).~~
- The borrower(s) has successfully demonstrated the ability to pay housing expenses equal to or greater than the new proposed monthly housing expense for the past 12 months.
- ~~• The borrower(s) has demonstrated a conservative attitude toward the use of credit.~~
- ~~• Accumulated savings or cash reserves available post-closing are equal to or greater than three months of the proposed PITI payment. Cash on hand is not eligible for consideration as a compensating factor. Refer to Chapter 9 for asset guidance. Cash reserves post-closing. The borrower(s) has demonstrated an ability to accumulate savings comparable to the difference between current housing costs and projected costs. The use of retirement accounts as compensating factors and as cash reserves is limited to 60% of the vested amount of the retirement asset to offset potential withdrawals by the applicant(s). Retirement accounts that restrict withdrawals to circumstances involving the borrower's employment separation, retirement or death should not be considered as a compensating factor or as cash reserves.~~
- Continuous employment with the current primary employer.

11.3 B. Refinance Transactions: Debt ratio waivers

Clarified: No change in guidance to eligible compensating factors. Language has only been streamlined for better clarification.

Removed: The additional language that was included for “Credit score of 680 or higher for each applicant” was removed because it was confusing. If an applicant has a 680 credit score or higher, that is an eligible compensating factor.

Removed: “The borrower has demonstrated a conservative attitude toward the use of credit” has been removed because it was not considered an objective or consistently interpreted compensating factor.

Clarified: No change in asset guidance. The language was reduced for clarification. Refer to Chapter 9 for asset calculation and documentation assistance.

11.4 MORTGAGE CREDIT CERTIFICATES

Authorized State or local housing finance agencies may issue a mortgage credit certificate (MCC) that provides a Federal income tax credit to a qualified first-time homebuyer and/or low- or moderate-income homebuyer. Refer to Chapter 9 for MCC guidance and GUS data entry. ~~Lenders may consider the monthly amount of the tax credit available to the borrower as a deduction to the proposed monthly PITI payment.~~

~~— Lenders using the tax credit to qualify the applicant for the loan must determine the amount of the mortgage credit available. Loan files must contain copies of the mortgage credit certificate, a copy of the lender's calculation of the adjustment to income, and a copy of the IRS Form W-4 that was given to the borrower's employer. See Chapter 9, Section 9.11A of this Handbook for additional information regarding mortgage credit certificates.~~

11.4 Mortgage Credit Certificates

Revised: Refer to Chapter 9 for MCC guidance and GUS data entry.

Funded buydown accounts are designed to ~~temporarily~~ reduce the borrower's monthly payment during the initial years (temporary buydown) or the full life (permanent buydown) of the loan. Permanent buydowns are fully funded and paid for at loan closing. The interest rate is fixed and will not change for the life of the loan. Temporary buydowns are eligible when the applicable guidelines are met. Buydown funds may come from the seller, lender or other interested third party. The borrower is not permitted to fund the escrow account and must not be required to repay the funds. Lenders should not use funded buydowns to qualify a borrower who would not otherwise qualify for a mortgage.

Temporary Funded buydown accounts ~~must meet the following~~ requirements:

- ~~The mortgage loan~~ he mortgage loan must be underwritten at the full note rate;
- Buydown funds may come from the seller, lender or other third party;
- Buydown funds may not come from the borrower;
- ~~The A~~ buydown ~~rate will must~~ not reduce the interest rate more than two percent below the full note rate;
- ~~The~~ assistance may increase no more than one percent annually; not result in more than a one percent annual increase in the interest rate and the increase may only occur once a year;
- The borrower must agree in writing that the temporary buydown funds will be placed in an escrow and paid directly to the lender each month to reduce the monthly mortgage payment;
- The buydown account must be fully funded at origination; and
- The funds must be placed in an escrow account with a financial institution supervised by a Federal or state agency.

A copy of the escrow agreement, signed by the borrower and the provider of the funds, must be retained in the lender's loan file. ~~Additional information regarding a temporary interest rate buydown can be found at Chapter 9, Paragraph 9.11 B. of this Handbook.~~

11.5 Funded Buydown Accounts

Clarified: No change in guidance, only streamline of language.

Clarified: All bullets are applicable to temporary buydowns. Permanent buydowns are fully paid and funded at loan closing.

Section 8 Homeownership Vouchers may be used for qualifying applicants. Refer to Chapter 9 for voucher guidance and GUS data entry. ~~This income is not included in Annual Income. For repayment income purposes, the monthly subsidy from the Section 8 Homeownership Vouchers may be treated in either of the ways described below.~~

~~**A. Repayment income**~~ ..

~~When the subsidy is paid directly to the applicant, it must be added to monthly repayment income. Since the subsidy is non-taxable, it may be “grossed-up” by 25 percent. This is the only option to include the Section 8 Homeownership Voucher when lenders utilize GUS for their underwriting recommendation.~~

~~**B. Offset to Principal, Interest, Taxes and Insurance (PITI)**~~ ..

~~When the subsidy is paid directly to the servicing lender, the monthly homeownership assistance payment may be deducted from the proposed PITI prior to calculating qualifying ratios.~~

11.6 Section 8 Homeownership Vouchers

Revised: Refer to Chapter 9 for Section 8 Voucher guidance and GUS data entry.