Presented by

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METROPLEX MORTGAGE SERVICES

Mortgage Lender

USDA APPROVED LENDER

Course Objectives

- Explain USDA Rural Development
- Determine if a property is eligible for USDA financing
- Explain to a customer income eligibility requirements
- List credit qualifying criteria
- Describe a Credit Waiver
- Describe Debt Ratio Waivers
- Formulate a plan to help buyers and sellers gain knowledge about and access to USDA.

Course Timeline

Property Eligibility	20 min.
Loan Costs	10 min.
Income Qualifications & Eligibility	20 min.
Credit Qualifying & Underwriting	20 min.
Authorized User Accounts/Disputed Accounts	10 min.
Waivers & Compensating Factors	10 min.
PMI/Seller Concessions/Financing closing costs	10 min.
Total	**100 min.** **(2 hours CE)**

Rural Housing Guaranteed Program

- Homes located in eligible rural areas
- Incomes up to 115% of median area income
- 30 Year Term / Fixed Rate
- No Prepayment Penalty
- 100% Financing (No required down payment)
- Financing based on appraised value (Not sales price)
- Ability to finance eligible closing costs
- Not limited to First Time Home Buyers
- No Maximum Loan Amount
- Flexible Credit Guidelines
- Underwriting options:
  - Automated
  - Manual

Property Eligibility

ELIGIBLE PROPERTY TYPES:

- Primary Residence (New Construction & Existing)
- Single Family Homes
- Townhomes, PUDs
- Condominiums (Condo approval process applies)

Minimum Property Requirements:

USDA Loans will follow HUD Handbook appraisal guidelines for minimum property condition.

- Heat source, flooring, plumbing, water, etc.
- Is a stove required to meet a minimum appliance requirement?
- Neither a new home nor an existing home has to have a stove in order to be eligible.
  (HUD Handbook 4000.1 Updated 9-14-15)
- USDA Loans are covered by HUD Handbook requirements for minimum property requirements for existing properties (MPRs)
- Existing dwellings must follow HUD Handbooks:
- Valuation Analysis (Single Family 1-4 Unit Dwellings)
- Requirements for existing housing 1-4 living units
- FHA Roster Appraisers may certify compliance to the handbooks

CFR 3555 (Code of Federal Regulations) effective 12/1/2014:

- Lenders must verify that the property size is typical of the area, and have access direct access from a street, road, or driveway.
- The site must be supported by adequate utilities, water, and waste disposal systems.
- Properties will no include buildings used principally for income producing purposes, however buildings such as barns used for storage may be permitted.
- Vacant Land or Properties primarily used for agricultural, farming, or commercial enterprise are ineligible.
- Updated guidelines have removed the restrictions for properties with in-ground pools.

ACREAGE GUIDELINES:

- Site size must be typical for the area
- Updated guidelines have removed the restrictions and additional guidelines required when the site value exceeded 30% of the overall property value.
- Another Positive Improvement!!!

Private Roads:

- Private Road Maintenance Agreements -NOT Required
- Must have evidence of a permanent recorded easement (non-exclusive, non-revocable roadway, driveway easement without trespass from the property to a public street/road)
- Streets and roads must be hard surfaced or all-weather surfaced. An all-weather surface is a road surface over which emergency and the area's typical passenger vehicles can pass at all times.
- A publicly maintained road is automatically assumed to meet this requirement.

If an HOA is responsible for maintaining streets and roads, it must meet the criteria set forth by Fannie Mae, Freddie Mac, the U.S. Department of Housing and Urban Development (HUD), or U.S. Department of Veterans Affairs (VA).

What if I already own a home?

- Applicants may retain one dwelling in addition to the new primary residence purchased with a Guaranteed loan, provided that:
    - Homeowner is financially qualified to own more than one house
    - Homeowner will occupy the home financed with the USDA loan as their primary residence <u>throughout</u> the term of the loan.

- Current home is no longer functionally adequate. Possible examples:
  * Job Relocation - Outside of a reasonable commuting distance
  * Manufactured home not on a permanent foundation
- Retained dwelling may not have a Direct or Guaranteed loan already (Unable to have **<u>2</u>** USDA Loans)

Private Water Tests (Well): The water analysis report must be no greater than 120 days old at loan closing. Properties served by cisterns are not acceptable. The water quality of the well must meet the requirements of the state or local authority.

Termites: Termite/pest inspections are not required unless the lender, appraiser, inspector or State law requires the inspection to confirm the property is free of active infestation.

Septic Tanks: The septic system must be free of observable evidence of failure. Existing dwellings appraised by a HUD roster appraiser, who has indicated the dwelling meets the required HUD handbooks does not require further septic certification.

The separation distances between a well and septic tank, and the property line should comply with HUD guidelines or state well codes.

<u>Procedures and Documentation Requirements / FHA Mortgagee Letter 2002-25</u>

For existing properties, FHA requires that a domestic well be located a minimum of 100 feet from the septic tank's drain field and a minimum of 10 feet from any property line. Should state or local regulations require greater distances, those distances must be met.

If, however, the locality permits distance requirements *less than those prescribed by FHA, the property may be considered eligible provided:.*

<u>Domestic Well from Septic Tank Drain Field:</u> NO *less than 75 feet of separation.*

<u>Domestic Well from Property Line</u>: Well may not be within 10 feet of any roadway or the property line of other than a single-family residential property, i.e., the well cannot be within 10 feet of a commercial, industrial, or multifamily building.

Escrow Repair Holdback (Exterior & Interior)

- The cost of the remaining work does not exceed 10% of the loan amount
- Livability of dwelling is not affected (No Roof, Electrical, Plumbing, etc.)
- Signed contract by borrower and contract is in effect for the proposed work
- CD reflects the escrow holdback amount may not be less than the contracted $$$.
- Escrow account established in a federally supervised financial institution
- Repairs to be completed within 30 days of closing
- Certification of completion is required to verify work was completed and must:
  - Be completed by the appraiser

- State the improvements were completed in accordance with the requirements and conditions listed in the original appraisal report
- Be accompanied by photographs of the completed improvements
- Final approval is issued and escrow funds are then approved for release

USDA 1X Close-No Down Payment

Per the 3555 it defines the program as:

"A combination construction to permanent loan can be offered to eligible applicants by approved lenders with appropriate construction lending experience and adequate controls for interim construction cost disbursements."

Features:

- Only one closing saves considerable closing costs
- It combines the features of a construction loan and the traditional long-term permanent residential mortgage.
- **Closing occurs prior to the start of construction.**
- At closing, funds are disbursed to cover the cost of land and applicable closing costs subject to the maximum loan to value.
- The permanent mortgage loan interest rate, which is used for underwriting, is established at closing.
- The term of the loan is thirty years.

Eligible Loan Costs

Land

- Acquisition cost of the land;
- Payoff the balance of land to be utilized in the construction of the dwelling.

Construction Hard Costs:

- Costs inside the contract to be detailed on the construction budget agreed upon by the builder and borrower;
- Costs outside of the contract, paid to subcontractors, for contributive work such as well and septic installation, roads/driveways, utility hookups, landscaping, etc.

Construction Soft Costs:

• Appraisal fees	• Title updates
• Inspection fees	• Lender construction administration fees
• Survey	• Contingency reserve
• Permits	• Interest reserve
• Plan review fees	• Project review fees
• Architecture or design fees	• Builder acceptance or review fees
• Engineering fees	• Tax and insurance reserve

Any item included in the cost to construct the home must be commonly and customarily included in the cost to construct other homes in the area where the subject property is located.

A contingency reserve to cover eligible expenses associated with unplanned problems with construction or change orders may be utilized. If used, the reserve is limited to 10% of the cost of construction (including labor, materials and soft costs). Reserve funds must be deposited into the construction escrow account.

The cost to construct must not include items such as furniture, electronic and home entertainment equipment or other personal items.

Builder Requirements

- 2+ years of experience building and constructing all aspects of single family dwellings similar to the type of project being proposed;
- Evidence of a state-issued construction or contractor license, as required by state law or local law;
- Evidence of commercial general liability insurance with a minimum coverage of $500,000;
- The builder/contractor must have an acceptable credit history being free of open judgments, collections or liens related to previous construction projects. An individual credit report is required in addition to a commercial report on the business. ;
- The builder/contractor must not have a previous felony criminal record. A background check will be performed by the approved lender. ;
- A builder may be limited to an Agency determined number of units, or terminated from participating in this program due to poor workmanship or failure to meet program guidelines. ;
- Contractors or builders who are constructing their own residence are ineligible.

Appraisal Phase

The fair market value of the to-be constructed property will be utilized to establish the maximum loan amount. Land value is based on the value as reported in the Appraisal Report, with no seasoning requirement.

The appraisal will be made "subject to completion per plans and specifications" approved lender submits the construction contract executed by the applicant and builder.

Reminder that closing costs & pre-paid items (settlement charges) may only be financed if the appraisal value is higher than the sales price.

Construction Phase

Certification of plans and confirmation of thermal requirements are required in accordance with Paragraph 12.9.B of this Chapter.

Draws and disbursements during the construction phase are managed by the approved lender.

- The borrower and lender are jointly responsible for approving disbursements to the builder during the construction phase.
- Total disbursements should not exceed the value of the realized material cost and the percentage of work in place.
- At a minimum, documentation should include evidence of a third party inspection, signed conditional lien waiver from the contractor/builder, and a title insurance endorsement for each draw.

Debt Ratios/Repayment

Debt to Income Ratios:

- Loan Qualifying/Repayment Income
- Published Guidelines:
  - Housing Expense (PITI): 29%
  - Total expense (Including Housing): 41%
  - Expanded ratios can be available

Income Eligibility

The amount of household income can be reduced

Allowable deductions from annual income are:

- Medical expenses

  *Only the portion in excess of 3% of the annual income not reimbursed

  *Only applicable for elderly or disabled households
- Childcare expenses
- Unreimbursed business expenses
- Dependents ($480 each)

Tax Exempt Income

- ✦ Updated Guidelines per CFR 3555 state:
  "The standard debt-to-income ratios are based on an assumption the income is taxable. If a particular source of income is not subject to Federal taxes, for example, certain types of disability payments or military allowances, the amount of continued tax savings attributable to the nontaxable income source may be added to the applicant's repayment income.
  Income that has been verified to be tax exempt may be "grossed up" by 25%, in other words, multiplied by 125 percent to "gross up" such income.
- ✦ Ex. 1 Social Security gross amount of $2,000 X 1.25% = $2,500
- ✦ Ex. 2 VA Disability gross amount of $1,500 X 1.25% = $1,875
- ✦ Annual Income: Tax exempt income sources should not be grossed up for annual income purposes.

Self Employment

Documentation:

- 2 Consecutive Years of signed Federal Tax Returns
- Year-to-Date Profit and Loss Statement (Not audited)
- Year-to-Date Balance Sheet (Not Audited)
- W2s
- K1s
- Schedule C (Depreciation & Depletion can be added back into AGI)

Remember, we need to calculate net income for loan qualifying. Not the figure for gross commissions or sales.

Credit Qualifying

- Automated Underwriting
  - GUS: Guaranteed Underwriting System
  - GUS provides a recommended level of underwriting and documentation to determine USDA Guaranteed loan eligibility
  - GUS "Accept", "Refer", or "Refer with Caution" risk evaluations
  - For credit scores 640 and above
  - Allows for more flexibility with processing and documentation

- Manual Underwriting
  - For loan files with:
    - GUS “Refer” or “Refer with Caution” risk evaluations
    - Credit scores below 640, which include
    - Zero Credit Score Applicants
    - Any other underwriting factors that require a downgrade
    - NOT all lenders offer manual underwriting ability

      Manual underwriting is a more intensive review of the overall loan file. It is common to require additional documentation and explanations from the borrower to document intent for good credit.

GUS = Guaranteed Underwriting System

- Available to USDA Approved Lenders such as **Metroplex Mortgage Services**
  - Specific “AUS” system for USDA loans
  - GUS assists lenders in the processing of USDA Loans
  - GUS provides a recommended level of underwriting and documentation to determine USDA Guaranteed loan eligibility
  - GUS “Accept”, “Refer”, or “Refer with Caution” risk evaluations can be eligible for approvals
  - Accept findings can be possible for credit scores 640 and above
    * Allows for more flexibility with processing and documentation

Credit Qualifying - CAIVRS

CAIVRS is a Federal government database of delinquent Federal debtors that allows federal agencies to reduce the risk to federal loan and loan guarantee programs.

CAIVRS alerts participating Federal lending agencies when an applicant for credit benefits, or for a position of trust in support of the administration of a Federal credit program, has a Federal lien, judgment or a Federal loan that is currently in default or foreclosure, or has had a claim paid by a reporting agency.

Credit Qualifying – Established Credit

At least one applicant must have the following:

3 historical trade line payment references

Must have existed for at least 12 months

If not on the credit report, non-traditional credit may be used:

- Verification of Rent (VOR) + 1 additional trade references, or
- 3 trade references without a Verification of Rent

Alternative Lines of Credit Examples

- Utilities, Cell Phone, Car Insurance, Cable, etc.

* ***Manual downgrade is required in the case of non-traditional credit*** *

Authorized User Accounts

- Per USDA Guidelines: A GUS underwriting recommendation of "Accept" with open authorized user trade lines must include evidence in the lender's permanent case file of one of the following:
- Another applicant on the mortgage loan application owns the trade line in question,
- The owner of the trade line is the spouse of an applicant , or
- Evidence the applicant has been making payments on the account for the last 12 months
- There are two or more other tradelines listed on the credit report, which are not authorized user accounts, with at least 12 months of payment history listed to validate the credit score.
- If one of these conditions cannot be met an underwriting recommendation of "Accept" must be manually downgraded to a "Refer" and the file must be manually underwritten

Disputed Accounts

- Per USDA Guidelines: When an applicant's credit report indicates a trade line or public record is in dispute, a GUS underwriting recommendation of "Accept" may need to be downgraded by the lender to a "Refer"
- A downgrade is not required if any of the following are met:
  - The trade line has a zero dollar balance
  - The trade line is marked "paid in full" or "resolved", or
  - The trade line has a balance owed of less than $500 and is older than 24 months
- In the event a GUS underwriting recommendation is downgraded to "Refer" the lender must remit a fully underwritten case file to the Agency

Foreclosures, Bankruptcies, & Short Sales

- Foreclosures: 3 years after foreclosure date
- Deed-In Lieu of Foreclosure: 3 years after completion
- Short Sales: 3 years after completion date
- Chapter 7 Bankruptcies: 3 years after discharge date
- Exceptions are possible with properly documented credit waivers!
- Chapter 13 Bankruptcies:
- Must document at least 12 months into the plan with no late payments
- The applicant must receive written permission from the bankruptcy court/trustee

- A credit waiver by the lender will be required for a manually underwritten loan. A completed Chapter 13 bankruptcy plan will not require a credit waiver provided the applicants have demonstrated a willingness to meet obligations when due for the 12 months prior to the date of loan application.

Mortgages Included with Bankruptcies

- Mortgages included with a Chapter 7 Bankruptcy
  - Similar to VA Loans, USDA Guidelines are updated with CFR 3555 and effective 12/1/2014 which will state:
- "When a Chapter 7 bankruptcy absolved the mortgage debt for the applicant, any foreclosure or remaining foreclosure pending is an action against the property, not the applicant. The foreclosure action is not considered as adverse credit in the applicant's evaluation. A loan underwritten with the assistance of GUS will not be required to be manually down-graded when the bankruptcy discharge included the mortgage debt."
  - Unlike FHA loans which require a 3-year waiting period for qualifying after the deed officially transfers, USDA has no specific requirement
  - Be cautious regarding adequate property guidelines

USDA Collection Policy-CFR 3555

Unpaid open collections could affect the future ability of an applicant to repay a mortgage when creditors pursue collection. In an effort to minimize future risk of open collections left unpaid, the lender will consider the following during the capacity analysis of the loan request, regardless of the method utilized to underwrite:

1) Determine if the total outstanding balance of all collections accounts of all applicants is equal to or greater than $2,000.
2) Remove all medical collections and charge off accounts from the total balance.
   (Medical collections and charge off accounts must be clearly identifiable on the credit report.)
3) If the remaining outstanding collection balance is equal to or greater than $2,000, any of the following actions will apply:

   a. Payment in full of all collection accounts at or prior to closing.

   b. Payment arrangements are made with each creditor for each collection account remaining outstanding.

   ** A letter from the creditor or evidence on the credit report is required to validate the payment arrangements.*

   ** The agreed upon monthly payment for each outstanding collection account will be included in the debt ratios*

   c. In the absence of a payment arrangement, the lender will utilize in the debt-to-income ratio a calculated monthly payment. For each collection utilize 5% of the outstanding balance to represent the monthly payment.

Credit Waiver Examples

The applicant lost their job in August 2009, then suffered a broken leg in October 2009 while unemployed. Their COBRA coverage has been slow to pay submitted claims, resulting in the three medical collection accounts that are in dispute."

Debt Ration Waivers

- Lender requested and approved by Rural Development
- Which loans do not require a debt ratio waiver request?
- Debt ratio waiver may be granted with the certain conditions
  - PITI is between 29% and 32%, or
  - Total ratio is between 41% and 44%
  - Credit score of all applicant(s) is 680 or greater

Compensating Factors

- Proposed PITI (housing expense) is equal to or less than the applicant's current verified housing expense for past 12 mos.
- Accumulated savings of liquid assets available post loan closing of at least 3 mos. or greater PITI payments after closing
- All employed applicants have been continuously employed with their current primary employer for a minimum of 2 years

Do USDA loans have PMI?

USDA Loans DO NOT have PMI

10/1/2011 USDA implemented their Annual Fee

How is the monthly payment calculated?

- .35% off the loan amount/ 12 months
- It is recalculated annually based on the scheduled UPB
  - UPB - Unpaid Principle Balance
  - Remaining years calculated on scheduled UPB not actual balance
  - This will be recalculated each year until the loan is paid off

What is “No Down Payment?”

- 100% Financing or No Down payment does not mean the same as….
  “No Money out of Pocket”
- Minimum expenses to plan for:
  - Earnest Money Deposit
  - Appraisal Fee
  - Inspection Fees
- Borrower is still responsible for their own settlement charges at closing
- Seller Concessions or Financing Closing Costs can both be of assistance

Seller Concessions/Financing Closing Costs

- USDA: 6% of the sales price maximum
- FHA: 6% of the sales price maximum
- VA: 4% towards pre-paids (which includes paying off Veteran’s debt)
  - However, no limit for closing costs
  - Provides the most flexibility of any program
- Conventional:
  - Less than 10% down = 3%
  - 10% down or greater = 6%
  - Investment Property = 2%

Additional Resources:

www.USDALoanPro.com

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