

# USDA & VA



**100%**  
**Financing**

*Presented by  
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**METROPLEX**   
MORTGAGE SERVICES  
Mortgage Lender



## Course Objectives

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At the end of this course the student will be able to:

- Describe to their customer the basic features of a USDA Loan
- Describe to their customer the basic elements of a VA Loan
- Explain the Automated Underwriting System and how it applies to a customer applying for a loan.
- Explain to a customer how their credit score affects their ability to obtain a mortgage loan.
- Explain to a veteran the steps for qualifying for a VA loan.
- Calculate the veteran's home loan entitlement amount.
- Help their customer determine if they (and the property they wish to buy) are eligible for a USDA loan.

## Course Timeline

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Welcome/Intro	10 min.
Part 1 Comparison Review & Common Traits	20 min
Part 2 VA loan Qualifying	35 min.
Part 3 USDA Rural Home Loans	35 min.
Total	100 min. (2 hours CE)

# Part 1

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## Comparison Review & Common Traits

### Quick Review

#### 1. USDA Rural Home Loans

- 100% Financing - Primary Residences
- 2.75% Financed Guarantee Fee
- .50% Monthly Premium
- Ability to finance closing costs up to appraised value
- Rural Areas Only
- Income Limits apply

#### 2. VA Guaranteed Program

- 100% Financing - Primary Residences
- VA Funding Fee Varies (exemptions available)
- No monthly costs or PMI
- Eligible service members only
- Not able to finance closing costs, but...
- Flexibility allowed through seller paid costs

## Automated Underwriting System (AUS)

- A computer-generated underwriting decision which considers loan application information
- Takes into consideration credit history, assets, debt ratios, LTV and delivers its findings.

### VA:

- Fannie Mae - Desktop Underwriter (DU)
- Freddie Mac – Loan Prospector (LP)
- VA – Eligibility processed by DU or LP

### USDA GUS (Guaranteed Underwriting System)

- This is not a substitute for an actual human being
- Initial gatekeeper which can provide a roadmap of what will be needed for eligibility
- Excellent tool for the pre-qualification process when determining upfront eligibility, sales price, and budget

## Manual Underwriting: VA and USDA

- Does not offer same streamlined ability as AUS eligibility
- However, does require a more intensive review of:
  - Credit: Collection, Disputes, Charge-offs, Payment History
  - Debt Ratios
  - Rental History and Verification
  - Additional reserves may be required
  - Job Time
  - How many credit accounts are established (Credit Reputation)
- Provides ability for loan approval, when AUS system may not
- Requires significantly greater experience
- Mainly utilized with Government loan programs
- Different manual underwriting criteria for:
  - USDA, FHA, & VA – Not a realistic option for Conventional

## Credit Qualifying - Manual

- No Credit Score Qualifying Potential
- Non-Traditional credit examples:
  - Alternative Credit
  - Electric, Cable, Rent, Cell Phone, etc.
  - Use of a “credit supplement” to verify
- Non-Traditional cannot offset poor credit
- Alternative “Trade Line” Example: (see PowerPoint)

## 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

## Credit Qualifying – CAIVRS (Credit Alert Interactive Voice Response System)

*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.*

## How do monthly costs compare?

- VA: NO Monthly Costs
- USDA:
  - Monthly Premium for the life of the loan (.50%)
- FHA:
  - Less than 10% down payment = Life of the loan (.85%)
  - 10% down payment or greater= 11 Years
- Conventional PMI: The Homeowners Protection Act
  - Request PMI Cancellation when you have reached the date when the [principal balance](#) of your mortgage is scheduled to fall to 80 % of the original home value.
  - Automatic PMI Termination requires the lender terminate PMI on the date when your principal balance is scheduled to reach 78% of the original home value.
  - Additional terms may apply based on payment history, etc.

# Part 2

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## VA Loan Qualifying

### US Department of Veterans Affairs VA Guaranteed Home Loans

- VA loans are provided by private lenders  
Metroplex Mortgage Services is proud to be a VA approved lender!
- VA Guarantees a portion of the loan
- 100% Financing available  
(Purchase or Refinance)
- Flexible Credit Qualifying
- Limited to eligible service members

### DU Underwriting Findings

### Certificate of Eligibility Processing

- Certificate of eligibility processing is mostly handled through ACE (automated certificate of eligibility) which most lenders have access to
- Lenders can & should assist with this process
- Documents needed to process can vary:
  - Depending on type of service such as:
  - Veteran, Active Duty, Surviving Spouse, etc.
  - Who can be eligible???

## Seller Concessions

Any seller concession or combination of concessions which exceeds 4% of the established reasonable value of the property is considered excessive, and unacceptable for VA-guaranteed loans.

Do not include normal discount points and payment of the buyer's closing costs in total concessions for determining whether concessions exceed 4%

Seller concessions included within the 4% cap include, but are not limited to the following:

- Payment of the buyer's VA funding fee
- Prepayment of the buyer's property taxes and insurance
- Gifts such as a television set or microwave oven
- Payment of extra points to provide permanent interest rate buydowns
- Provision of escrowed funds to provide temporary interest rate buydowns,
- Payoff of credit balances or judgments on behalf of the buyer.
- Seller Concessions

### **Closing Costs vs. Pre-Paid**

- The seller, lender, or any other party may pay fees and charges, including discount points, on behalf of the borrower.
- VA regulations limit charges "made against or paid by" the borrower.
- They do not limit the payment of fees and charges by other parties.
- *Chapter 8: Borrower Fees and Charges and the VA Funding Fee VA Pamphlet 26-7, Revised*
- *Reminder: Pre-paid include initial amounts for escrows, pre-paid interest, and flood or homeowner's insurance premiums.*
- *Settlement charges refer to the combination of closing costs and pre-paid*

## VA Funding fee

- Can be financed into the loan
- Funding fee is amortized over the loan term, instead of monthly such as PMI
- Funding Fee is used to cover liquidation losses to VA
- Certain Veterans can be exempt from the funding fee
- PMI – not required / No monthly cost such as:
  - Conventional loans may have PMI (Cost varies)
  - FHA has MIP (.85%)
  - USDA loans have an annual premium (.50)

### **Veteran's Home Loan Entitlement**

- Present basic entitlement is:  
\$36,000 ( $\$36,000 \times 4 = \$144,000$ )
- Additional Entitlement (Bonus): Loans of \$144,001+

## Veteran's Home Loan Entitlement

- Full Restoration of entitlement requires the following:
  - Existing VA loan must be paid off and a transfer of title (e.g. HUD-1)
  - What if the Veteran still owns the property but has paid off their VA loan? – One Time Only restoration

### **What is Bonus Entitlement?**

- In cases when a Veteran has lost previous entitlement (e.g. foreclosure, short sale, outstanding VA loan)
- They can still be eligible for bonus entitlement, but only for loan amounts that exceed \$144,000.
- (\$144,001 up to conforming loan limit)

### **Debt Ratios**

- 41% of gross monthly qualifying income (Published)
- Additional monthly debts must be included
- Common income examples include:
  - Current employment (Pay Stubs, W2, etc.)
  - Self employments (needs 2 years with tax returns)



- VA Disability, VA Retirement, Social Security
  - Tax Exempt income may be grossed up for qualifying
- Debt Ratio Flexibility provided with AUS findings
- Residual Income Requirements will apply.....(Separate calculation for VA loans)

## Credit Qualifying

### Credit Flexibility due to:

- Less stringent underwriting guidelines compared to conventional loan programs, thus improving qualifying opportunities.
- No Minimum Trade Line Requirements
- Credit Score Flexibility
  - No published minimum scores
- Less stringent waiting periods for:
- Bankruptcies, Short Sales, Foreclosures

### Special Circumstances

- Bankruptcy – Chapter 7
  - 2 years from discharge date
  - The following will also contribute towards underwriting decision:
    - Higher credit scores
    - Re-established credit since the bankruptcy
    - Payment Shock
    - Letter of Explanation detailing the situation
- Bankruptcy – Chapter 13
  - 2 years from discharge date, or
  - At least one year in the payout plan with no late payments (OX30)
  - Must obtain permission to incur debt from the court (Loan transaction)
  - Manual Underwriting guidelines may apply
    - More restrictive qualifying review of the file
- Foreclosures, DIL of Foreclosure & SS
  - 2 years after foreclosure date
  - If mortgage included in Chp. 7, - 2 years from discharge date – not deed transfer date
  - Deed-In Lieu of Foreclosure – 2 years from completion date
  - Short Sale – 2 Years from completion date
  - Previous losses may impact available entitlement

# Part 3

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## USDA Rural Home Loans

### USDA Rural Development Single Family Housing Guaranteed Loan Program.

- Guaranteed Loans Offer Affordable Financing To Rural Homebuyers.
- The USDA mission of USDA Rural Development is to assist low to moderate income rural homebuyers achieve their dream of home ownership!
- Applicants must purchase a home within the eligible rural areas and have a household income that does not exceed the established limits where the home is located.



## Rural Housing Guaranteed Program

### Determining Income Eligibility

- USDA calculates income in 2 different formulas:
  - Annual Income includes all family household members and their total income regardless if they are on the loan or not.
    - Deductions can be made for qualifying annual income (e.g. Child Care Expenses, Dependents deduction,)
  - Repayment income is based on the borrower's ability to qualify for the loan

## USDA Eligibility Site

### Determining Income Eligibility

#### 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)

## 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***

## Private Roads

### Property Eligibility

- Acreage Guidelines
- Septic Tanks
- Termites
- Water Tests

## New Construction Benefits

- USDA guidelines define a new construction property as:
- “New dwellings that have been built for less than 12 months and have never been occupied”

## 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
- Signed contract by borrower and contract is in effect for the proposed work
- HUD-1 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

## Credit Qualifying

### **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 - Manual Underwriting**

For loan files with:

- GUS “Refer” or “Refer with Caution” risk evaluations
- Credit Waivers may be applicable for adverse credit
- Credit scores below 640, which include
- Zero Credit Score Applicants
- Any other underwriting factors that require a downgrade (Disputed Accounts, Authorized Users, Alt Trade lines)
- 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.

## What is a Credit Waiver?

- The applicant must have a credit history which indicates a reasonable ability and willingness to meet obligations as they become due
- The Lender may consider mitigating circumstances to establish the borrower’s intent for good credit when the applicant provides certain documentation

## 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
- 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”

## Special Circumstances

- Chapter 7 Bankruptcy, Foreclosure, and Short Sale
- Debt Ratio Waivers

## What can be financed?

- Financing is based off the appraised value (Not sales price)
- 6% seller concessions permitted
- What can be financed into USDA Loans?

## USDA Loans – Annual Fee (Not PMI)

- .50% of the loan amount /12 months
- Life of the loan
- It is recalculated annually based on the scheduled UPB

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