



WHOLESALE ANNOUNCEMENT 2021-29

October 7, 2021

USDA/RD Guideline Updates

first community mortgage

Effective Date

Immediately

Updated Guideline Section

USDA/RD Guidelines-Sections:

- 1.06.06 Credit Waivers/Exceptions
- 1.06.20 Consumer Credit Counseling
- 1.07.04 Revolving Accounts
- 1.07.07 Student Loans
- 1.07.08 Contingent Liabilities
- 1.07.11 30-Day Charge Accounts
- 1.07.18 Obligations Not Included in Debt-to-Income Ratios (*Added*)
- 1.08.06.02 Rental Income

Guideline Verbiage Updated/Added

Section 1.06.06 Credit Waivers/Exceptions

1.06.06.01

Purchase Transactions: Debt ratio waivers

1.06.06.01.1.1

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

1.06.06.01.1.2

GUS Refer, Refer with Caution, and manually underwritten loans without GUS

assistance: The Lender must document eligible compensating factors to support a debt ratio waiver. Agency approval of a lender's request for debt ratio waiver may be granted if all of the following conditions are met:

- Acceptable ratio thresholds are met:
 - The maximum PITI ratio cannot exceed 32 percent, **and**
 - The maximum TD ratio cannot exceed 44 percent;
- The credit score of all applicant(s) is 680 or greater;
- At least one of the acceptable compensating factors listed below is identified and supporting documentation is provided to the Agency.

Acceptable Compensating Factors and Supporting Documentation:

- The proposed PITI is equal to or less than the applicant's current verified housing expense for the 12-month period preceding loan application. Verification of housing expenses may be documented on a verification of rent (VOR) or credit report as noted in Chapter 10. The VOR or credit report must include the actual payment due and report no late payments or delinquency for the previous 12 months. Rent or mortgage payment histories from a family member will not be considered unless 12 months of canceled checks, money order receipts, or electronic payment confirmations are provided. A history of less than 12 months will not be considered an acceptable compensating factor.
- Accumulated savings or cash reserves available post loan closing are equal to or greater than



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three months of PITI payments. Documentation may include a verification of deposit (VOD) or bank statements that meet the requirements of Chapter 9. Cash on hand is not eligible for consideration as a compensating factor.

- The applicant(s) (all employed applicants) has been continuously employed with their current primary employer for a minimum of two years. A “Request for Verification of Employment” (VOE) (Form RD 1910-5, comparable HUD, FHA, VA or Fannie Mae form, or other equivalent), or a VOE 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.
- 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.
 - The issuance of the Conditional Commitment for a Loan Note Guarantee represents Agency approval of the ratio waiver.

1.06.06.02 Refinance Transactions: Debt ratio waivers

1.06.06.02.1 **GUS Accept Loans:** GUS files that receive an Accept or Accept Full Documentation Underwriting recommendation do not require debt ratio waivers.

1.06.06.02.2 **Gus Refer, Refer with Caution, and manually underwritten loans without GUS assistance:**

- GUS files that receive a GUS recommendation of Refer, Refer with Caution or are not supported by GUS require debt ratio waivers, and supporting documentation must be submitted to the Agency.
- 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.
- The following are examples of acceptable compensating factors for debt ratio waiver requests:
 - Credit score of 680 or higher for each applicant.
 - 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.
 - 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.



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- Continuous employment with the current primary employer.
- The issuance of the Conditional Commitment for a Loan Note Guarantee represents Agency approval of the ratio waiver.

GUS “Accept” loans that have adverse credit accounts selected as “omit” by the underwriter do not require a documented credit waiver to be submitted to RD. However, the underwriter is required to make notes and/or comments in GUS as to why the account was omitted.

Section 1.06.20 Consumer Credit Counseling (CCC)

Added Language: Lenders must ensure all liabilities are accurately reflected in GUS *and includes the monthly payment due from the counseling plan.*

Section 1.07 Ratio Analysis

Section 1.07.04 Open Charge/Revolving Accounts

Open charge accounts, also known as Revolving Accounts, must have their payments included in the DTI calculation regardless of the number of payments remaining to pay off the debt.

If the credit report shows a revolving account with an outstanding balance but no specific minimum monthly payment, the payment must be calculated as the greater of:

- 5% of the of the balance reported on the credit report.
- Revolving accounts with no outstanding balance are not required to be closed.

Note: If the actual monthly payment is documented from the creditor or a copy of the current statement reflecting the monthly payment is obtained, that amount may be used for qualifying purposes.

Section 1.07.07 Student Loans

• 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 current documented payment under the approved repayment plan with the creditor, when the payment amount is above zero; or
- One-half percent (.50%) of the outstanding loan balance documented on the credit report or creditor verification, when the payment amount is zero.

• **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.**

Section 1.07.08 Contingent Liabilities / Co-Signed Loans

Added: If there are late payments in the previous 12 month prior to the loan application, the full debt payment for a mortgage obligation must be included in the DTI. For co-signed obligations the full debt payment must be included in the DTI unless the applicant can provide evidence from the creditor that they will not pursue debt collection against the borrower if the other party



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defaults. For all co-signed debts listed as an individual account on the credit report must be included in the DTI regardless of who is making the payment.

Section 1.07.11 30-Day Charge Accounts

Replaced current language with the following:

- A 30-day account is a credit arrangement requiring the applicant to pay off the full outstanding balance on the account every month.
- The Lender may utilize the credit report to document the applicant has paid the outstanding balance for the previous 12 months.
- If the credit report reflects late payments in the last 12 months, the Lender must include 5% of the outstanding balance in the monthly debts.
- 30-day account that are paid monthly in full are not included in the total debt ratio.

Section 1.07.18 Obligations Not Included in Debt-to-Income Ratios

Obligations not considered or included in debt-to-income ratios calculations include:

- Medical Collections
- Federal, state, and local taxes, unless a payment plan is in place
- Federal Insurance Contribution Act (FICA) contribution
- Other retirement contributions such as 401(k) accounts, including the repayment of loans secured by 401(k) funds
- Automatic deductions to savings accounts, mutual funds, stocks, bond, certificates of deposit, including the repayment of loans secured by such funds
- Collateralized loans secured by depository accounts
- Utilities
- Insurance, other than property insurance
- Community costs
- Union dues
- Open accounts with zero balances
- Child Care
- Voluntary deductions

Section 1.08.06.02 Ineligible Properties (Income)

Added: 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 debt.