



## Naughty or Nice?

### Document loan files for credit and ratio waivers.

**Credit Waivers:** Lenders who approve manually underwritten loan files with FICO scores below 620 that exhibit adverse credit listed in RD Instruction 1980-D, section 1980.345(d), must submit a documented credit waiver to Rural Development and retain a copy in their permanent case file. This guidance applies to GUS loans that receive an underwriting recommendation of "Refer" or "Refer with Caution."

Administrative Notice (AN) 4346 and RD Instruction 1980-D, section 1980.345(d)(3)(i) outline the criteria for a properly documented credit waiver. The credit waiver must include *how* the adverse credit was *temporary in nature* **AND** *why* it was *beyond the applicant's control* **AND** *document the proof* that it *has been removed*!

**Nice Credit Waiver:**

*The bankruptcy filed on 10/07 was due to loss of income when the applicant lost their job and became ill on 3/07. Since the bankruptcy, the applicant has secured stable employment, medical insurance, and the past 12 months of credit including rent is paid as agreed.*

**Naughty Credit Waiver:**

*The applicant suffered adverse credit that was temporary in nature, beyond their control, and has been removed. (This generic sentence does not provide an explanation.)*

**The approved lender remains responsible for underwriting the loan file.**

**Ratio Waivers:** Approved loan files that are manually underwritten and exceed the 29/41 ratio thresholds must have a written ratio waiver request submitted to Rural Development. The request must identify the compensating factors to support this risk layer of the loan file. There is no minimum number of compensating factors required, but the lender should use this opportunity to support their approval of the loan file. This guidance applies to GUS loans that receive an underwriting recommendation of "Refer" or "Refer with Caution." Rural Development will issue ratio waiver approvals in writing to the lender which must be retained in the permanent case file.

**Nice Ratio Waiver Request:**

*The ratios are 31/45 however the FICO scores are 700 and 720, both applicants have three years of job time, they currently pay \$850 in rent and the new PITI will be \$1000, and they have 3 months of reserves.*

**Naughty Ratio Waiver Request:**

*620 FICO*

In the current mortgage environment, less is *not* more. Underwriters are encouraged to document their credit waivers and ratio requests on the Underwriting Transmittal Summary (FNMA 1008/FHLC 1077). All supporting documentation must be retained in the lender's permanent case file.

GUS loans that receive an underwriting recommendation of "Accept" *do not* require underwriter credit waivers or ratio waiver requests.

## Seller Concessions: Handle With Care!

Seller concessions are allowed to be utilized with Guaranteed financing to assist with closing costs, customary lender fees, eligible repairs, and for temporary or permanent interest rate buydowns. Seller concessions are **never** authorized to pay collection accounts, credit card bills, or other items that are not directly associated with the purchase of the home. Buyers may not receive cash back at closing from seller concessions.

Unauthorized use of loan funds by lenders can jeopardize their approved lender status, loan note guarantee, and/or potential loss payment.

Specific limitations on seller concessions are deferred to the secondary market source of the approved lender.



## Holiday seasons sneak up on the unprepared... So do deferred student loans.



Deferred student loans must be included in the debt ratio calculations for Guaranteed Loans regardless of the deferment period.

Rural Development RD Instruction 1980-D, section 1980.345(c)(1) states: *“Long term obligations include those obligations...with a remaining repayment period of more than 6 months and other shorter term debts that are considered to have a significant impact on repayment ability.”*

If the credit report does not reflect a monthly payment due at the end of the deferment period, the lender may request a copy of the applicant’s payment letter, or utilize the industry standard of estimating student loan payments as 1% of the loan balance. Therefore a deferred student loan balance of \$12,000 should have a corresponding monthly payment of \$120 if no estimated payment is verified by the lender.

This guidance applies to all manually underwritten loan files and loans submitted through the Guaranteed Underwriting System (GUS).

## Gift Funds! Do not over gift in GUS.



Approved lenders utilizing GUS must ensure accurate data entry and documentation of gift funds associated with the loan. “Gifts Total,” “Gifts Not Deposited,” and “Earnest Money Cash Deposits” should be entered on the “Asset and Liabilities” page **OR** under “Other Credits” on the “Details of Transaction” page.

**Do not** enter these funds on both pages as this would result in a misrepresentation of assets. Lenders are responsible for documenting the true and accurate assets entered into GUS in the permanent loan case file.



## Countdown to 2009! Prepare to party as a Guaranteed loan smarty!

1. Brian’s FICO score is 715. The underwriter has determined two collections on his credit report do not have to be paid for loan approval. Is the underwriter required to document an adverse credit waiver?
2. Sally’s loan application lists \$5,000 of seller concessions to cover closing costs, two collection accounts, and \$2,500 of her Visa credit card. Is this an eligible use of seller concessions?
3. Underwriter Mary has a verified gift letter and documentation supporting a \$2,000 gift for her client. Mary enters the gift funds on the “Assets and Liabilities” page of the GUS application. Should Mary also enter this gift under “Other Credits” on the “Details of Transaction” page since these funds will be used for closing cost assistance?
4. Lender Bob has requested to finance a permanent interest rate buydown (discount points) for his clients. Can the cost of this buydown be part of the proposed loan?
5. Cindy’s credit report lists three student loans with balances of \$2,500, \$15,000, and \$8,500. The loans are currently deferred for 12 months, and when excluded the ratios are 32/44. Can the lender exclude these student loans and submit a ratio waiver request?

1. No. The underwriter is not required to submit an adverse credit waiver because Brian’s FICO is above 620. However, the outstanding collections are to be considered in regards to future loan performance of the mortgage loan applicant and loan approval process. (See AN 4346: located at [www.rurdev.usda.gov/regs](http://www.rurdev.usda.gov/regs))
2. No. Seller concessions may **not** be used to pay off consumer debt, collection accounts, etc. Seller concessions may only be utilized to pay for customary closing costs and fees (i.e. appraisal, underwriting, credit report, etc.)
3. No. If Mary enters the gift funds on both GUS pages it will appear the client has \$4,000 of gift funds instead of \$2,000. Mary must also document the permanent case file to reflect verification of the gift funds.
4. Maybe. Only if Bob’s clients are low income applicants. RD Instruction 1980.310(d) allows for low-income applicants only, loan discount points to reduce the note interest rate from the rate authorized in 1980.320. Financed discount points are limited to 2% of the purchase price. In order to finance these points there must be room between the purchase price and appraised value of the home.
5. No. The lender must include all deferred student loan payments into the qualifying ratios. If an estimated payment was not available or verified by the lender, 1% of the loan balance may be considered (i.e. monthly liability payments of \$25, \$150, and \$85 would apply). Cindy is already over the ratios without the student loan payments. If strong compensating factors are present to offset the ratios, the lender must document their request and seek approval by Rural Development.



**Start the new year off right! Contact Rural Development:**



