



Committed to the future of rural communities.

# Guaranteed Loan News

## August/September 2007 Back to School Issue

The official newsletter of the  
Single Family Housing Guaranteed Loan Program

### Never Stop Learning!

100% financing proves to be an essential lesson in building your business!



The Guaranteed loan program enjoys a loyal audience of lenders and supporters dedicated to choosing the best financing option for their clients. Due to current market conditions, the fall of subprime lending, and higher cost real estate areas the Guaranteed loan program has gained a new legion of 100% financing fans. AND WHY NOT? Guaranteed financing offers lenders more benefits and flexibilities than any other affordable lending product on the market.

“Ignorance is bliss” does not apply to the wonderful world of lending. “Knowledge is Power” rules the lending community as we now know it. Lenders can not afford to be unfamiliar with multiple lending products. Nothing can build your business more quickly than Guaranteed financing.

#### CLIFF NOTES ~ Guaranteed financing offers you and your clients:

- **TRUE 100% financing:** Most affordable lending programs cap their maximum LTV's at 100% of the LESSER of sales price or appraised value. This can hinder your ability to include closing costs, etc. Guaranteed loans allow up to 100% of the appraised value plus the 2% guarantee fee, for a maximum LTV of 102%.
- **No monthly mortgage insurance:** Reduced MI programs have nothing on Guaranteed financing. DO THE MATH! On a \$100,000 loan a popular reduced MI program would charge \$49 mortgage insurance per month. The one time 2% guarantee fee is only \$2,000. There are three equations to consider:
  1.  $\$2,000 / \$49 = 40.81 \text{ months} / 12 = 3.4 \text{ years}$  to pay MI equal to the guarantee fee. If the client remains in the home longer than 3.4 years they continue to pay MI until 20% - 25% (depending upon lender requirements), equity is accumulated. This money could be better utilized elsewhere!
  2. If the client were to choose Guaranteed financing and include the 2% guarantee in the loan they will pay \$36 less per month. They could effectively save up to \$432 per year, or pay down debt.
  3. The client could choose Guaranteed financing and negotiate a 2% seller/builder concession in their contract which could pay for the guarantee fee, hence it does not become part of the loan. The client will pay \$49 less per month for a total savings of \$588 per year.
- **Flexible credit:** Clients are more than just three digit FICO scores. Rural Development encourages lenders to make the loans that make sense. There are no minimum tradeline requirements for traditional or non-traditional credit histories.
- **Expanded qualifying ratios:** Lenders may exceed the standard 29/41 ratios with compensating factors. There is no maximum limit the standard ratios may be exceeded. There is no minimum credit score required to request a ratio waiver. (see page 3)
- **No maximum purchase price:** Clients may purchase or build the home that meets their needs.
- **Generous income limits:** While income limits do apply, there are many eligible deductions to assist more borrowers qualify for Guaranteed financing. (This was highlighted in the June/July 2007 Newsletter). Lenders use the full gross income to qualify clients for the home. The deductions do not count as debts against the clients.
- **Not limited to first time homebuyers!**

THIRSTY FOR MORE KNOWLEDGE? KEEP READING!  
THE SCHOOL OF GUARANTEED FINANCING IS IN SESSION!



#### In this issue:

- **Guaranteed Financing:** Cliff Notes
- **Math Lesson:** 2% fee is tax deductible
- **Chalk Talk:** Credit and Ratios
- **Networking:** NAMB Conference Overview
- **Computer Technology:** GUS Rollout procedures



**2% Guarantee fee is tax deductible!  
Rural Development makes the grade at tax time!**



Private Mortgage Insurance (PMI or MI) is now tax deductible. Rural Development wants you to know that the 2% guarantee fee is also tax deductible. Lenders should encourage clients to consult with a tax advisor when preparing their returns regardless of the type of mortgage they hold.

**TAX DEDUCTIBILITY—ONE MORE ADVANTAGE FOR GUARANTEED CLIENTS!**

**Guaranteed financing can help NAMB continue to reign!**



USDA Rural Development attended and was a featured exhibitor at the 2007 National Association of Mortgage Brokers conference in Seattle, Washington. A few of the topics abuzz included affordable lending options and serving more homebuyers with responsible lending products. Brokers who visited the Rural Development booth (and there were a LOT who visited) left with a new outlook on Guaranteed financing. They thought we only did farms. They thought that rural property meant in the middle of nowhere with only cows for neighbors. **THEY WERE ESTATIC TO LEARN THIS WAS NOT THE CASE!** Guaranteed loans offer tremendous benefits to the client. Flexible credit and qualifying guidelines assist brokers in serving more homebuyers with unique needs, yet always with affordable payments and terms.

Rural Development is committed to working more closely with NAMB to ensure their members are aware of the opportunities they have with Guaranteed financing. We look forward to being recognized as a valuable partner to their organization.



**Q: If mortgage insurance is tax deductible, does Guaranteed financing offer any additional benefits?**

**A: YOU BET IT DOES!**

Which would YOU choose?

**\$150,000 contract sales price 7% interest rate MI applied as applicable Principal and interest only comparisons**

**OPTION ONE**

Affordable lending program w/reduced MI (20% coverage)

**\$1,072**

- \$150,000 loan amount
- \$74 monthly MI included
- \$888 annual tax deduction (consult tax advisor)
- Client will pay \$74 MI per month for only 3.4 years which is equal to the one time \$3,000 guarantee fee
- MI will continue until 20 -25% equity (per lenders guidelines) is achieved in the property.
- This example is for reduced MI (20%). Other affordable lending programs will have higher interest rates AND higher MI coverage apply, thereby further increasing the savings of Guaranteed Financing.

Calculation of MI "break-even" for MI:  
\$3,000 guarantee fee / \$74 monthly MI = 40.5 payments  
40.5 payments / 12 months = 3.4 years

**OPTION TWO**

Guaranteed financing with the 2% fee included in the loan

**\$1,018**

- \$153,000 loan amount
- No monthly MI
- \$3,000 one time guarantee fee included in the loan
- \$3,000 tax deduction (consult tax advisor)
- Client saves \$54 per month compared to Option One. In 3.4 years they could have a savings account or reduced debt in the amount of \$2,187.
- 2% Guarantee fee may be rolled into the loan above the appraised value (102% LTV). Clients never have to bring 2% cash to the table.
- The difference between sales price and appraised value may be utilized for other closing costs. Clients could receive their earnest money, first year paid premium of homeowners insurance, and other out of pocket costs back in cash at closing.

**OPTION THREE**

Guaranteed financing without the 2% fee included in the loan

**\$998**

- \$150,000 loan amount
- No monthly MI
- 2% concession pays for the one time \$3,000 guarantee fee
- \$3,000 tax deduction to seller/ builder (consult tax advisor)
- Client saves \$74 per month compared to Option One.
- Client saves \$20 per month compared to Option Two.
- Potential savings range from \$810–\$3,000 within 3.4 years.
- Clients enjoy reduced payment with a seller paid concession.
- Potential money back to the client still applies as described in OPTION TWO, final bullet.

**GUARANTEED FINANCING SAVES CLIENTS MONEY IN MORE WAYS THAN ONE!**



# Chalk Talk: Credit and Ratio Waivers

Don't beat an eraser against your head—it's easy!



Confusion continues to swarm when credit and ratio waivers are brought up for Guaranteed loan files. Instead of spending countless hours searching for unnecessary forms, writing book reports, or assuming another party is responsible for granting these exceptions let us study the facts.

Underwriting Topic	Who issues approval?	Lender responsibilities.	Rural Development responsibilities.
<p><b>Credit waivers</b></p> <p>Many lenders and states have created their own form for credit waiver submission in an effort to simplify the process, but these are <u>not</u> official Rural Development publications and they are <u>not</u> required.</p>	<p><b>Lender</b></p> <p><b>The 1008 Underwriting Transmittal Summary “Underwriters Comments” is a perfect spot for documenting the loan decision as well as providing comments and compensating factors**.</b></p>	<p><b>FICO 620 &amp; ↑ (both applicants):</b> no explanations or documentation necessary for the lender or RD loan-file in regards to derogatory credit as defined in 1980.345(d)*.</p> <p><b>FICO 619 &amp; ↓:</b> underwriter must secure compensating factors** and/or documentation that the circumstances were temporary in nature, beyond the applicant’s control, and have been removed so their reoccurrence is unlikely.</p>	<p><b>FICO 620 &amp; ↑ (both applicants):</b> issue conditional commitment and do not request any additional documentation</p> <p><b>FICO 619 &amp; ↓:</b> ensure the <u>lenders</u> credit waiver is documented in file including compensating factors. Letters of explanation, copies of receipts, etc. will remain in the <u>lenders</u> file. Do not anticipate receiving a copy. <b>RD does <u>not</u> issue credit waivers.</b></p>
<p><b>Ratio Waivers ***</b></p> <p>Many lenders and states have created their own form for ratio waiver submission in an effort to simplify the process, but these are <u>not</u> official Rural Development publications and they are <u>not</u> required.</p>	<p><b>Lender requests concurrence from Rural Development prior to conditional commitment</b></p> <p><b>The 1008 Underwriting Transmittal Summary “Underwriters Comments” is a perfect spot for documenting compensating factors** in support of the ratio waiver request.</b></p>	<p><b>FICO 660 &amp; ↑:</b> no further documentation necessary when additional risk layers are not present</p> <p><b>FICO 659 &amp; ↓:</b> document compensating factors** to support request</p>	<p><b>FICO 660 &amp; ↑:</b> issue conditional commitment, and do not request any additional documentation</p> <p><b>FICO 659 &amp; ↓:</b> review the <u>lenders</u> request and compensating factors. Issue conditional commitment along with written ratio waiver if the request is supported. The waiver basis can be documented on the GLS attachment to Form RD 1980-18, where it remains part of the permanent imaged case file. <b>See *** below.</b></p>

**NOTES:**

**Credit Waivers:**

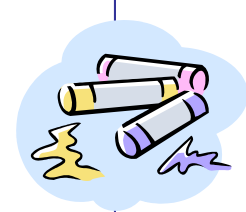
\* Derogatory credit is defined by 1980.345(d) as: more than one debt payment being 30 days late in the last 12 months on a single account, foreclosure or bankruptcy discharged less than 36 months, outstanding tax liens or delinquent government debts with no satisfactory arrangements for payments- no matter what their age as long as they are currently delinquent or past due, judgments currently outstanding or has been outstanding in the last 12 months, two or more rent payments paid 30 days or more past due within the last 3 years, accounts converted to collections within the last 12 months, collections accounts outstanding with no satisfactory arrangements for payments—regardless of age as long as they are currently delinquent and due payable, any debts written off within the last 36 months (bankruptcy).

\*\* Strong compensating factors include but are not limited to: FICO score of 660 or higher for any applicants, current rent is comparable to proposed PITI or payment shock is very low (100% or less), conservative attitude toward the use of credit, previous credit history reveals applicant is successful carrying high debt load, job stability of 2 or more years in current position (or no gaps in employment regardless of positions held), additional compensation is received but has not been utilized in ratios, assets or reserves are available post closing, potential for increased earnings due to profession or job training, impending marriage, impending second income of spouse, low total debt ratio, etc.

\*\*\* There is no minimum FICO score required to request a ratio waiver. There is also no maximum the ratios may be exceeded. It is not uncommon for Rural Development to approve front end ratios in the high 40% range and back end ratios in the high 50% range.

**Why use the 1008 for credit and ratio waiver requests?**

- Underwriter is named and/or signs this form
- Required document to be submitted with all manually underwritten files
- Adequate space provided for comments
- Rural Development images this form as part of the permanent Guaranteed loan file
- **GUS files that receive a loan determination of “Accept” do not have to submit credit or ratio waivers.**





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## Get to know GUS!

Rural Development invites more lenders to sign up for the Guaranteed Underwriting System



Due to the success and positive feedback from our initial controlled rollout phase, lenders who wish to access GUS prior to the November 2007 extension phase may do so NOW!

Please contact your local Rural Development office to coordinate your sign up process. Quick turnaround time on documentation received by the lender will result in a more timely GUS activation.

### WHAT TO EXPECT WHEN YOU SIGN UP FOR GUS!

1. Contact your local Rural Development office to request a "GUS Starter Pack".
2. The Rural Development office will email you a "GUS Lender Contact Sheet". Please fill this out and return it to the Rural Development office.
3. Rural Development will submit your contact sheet to Debbie Terrell (debra.terrell@wdc.usda.gov) and Kristina Zehr (kristina.zehr@wdc.usda.gov) for processing.
4. **A "GUS Starter Pack" will be mailed to you from the National Office.** Your starter pack will include a welcome letter, user agreement, transmittal cover, and step by step "Sign up for GUS" instructions.
5. Follow the steps outlined in "Sign up for GUS". Complete and submit the user agreement and transmittal cover to DCFO.
6. DCFO will process your user agreement and complete GUS activation. Your Security Administrator (SA) will receive an automated email once they are activated in GUS. Activation allows lenders to begin utilizing GUS.
7. Debbie and Kris will notify the local Rural Development office that you are activated in GUS.
8. The local Rural Development office will contact you with your notification and offer GUS training support, and assist you with valuable online lender training.

**Now that you are activated who do you call for assistance?**

For GUS functionality questions call the GUS HELPDESK: 1-800-457-3642 or email them at: [servicedesk-stl@stl.usda.gov](mailto:servicedesk-stl@stl.usda.gov)

### GUS LENDER TRAINING ONLINE!

- **Log on:**  
<https://usdalinc.sc.egov.usda.gov/>
- **Click on the "RHS LINC Home"**
- **Under "Single Family Guaranteed Rural Housing" click on "Training and Resource Library"**
- **Scroll down to "Guaranteed Underwriting System (GUS)", click on "GUS Lender Overview Training"**

### RURAL DEVELOPMENT AGENCY STAFF:

- **Begin online intranet GUS training**
- **Complete the online Lender training listed above**
- **You are responsible for training lenders and assisting them with their GUS development**

*LISTEN, LEARN, EXCEL!*

Additional GUS resources are coming to you soon!