

TO: State Directors
Rural Development

ATTENTION: Rural Housing Program Directors,
Guaranteed Loan Coordinators,
Area Directors and Area Specialists

FROM: Tammye H. Trevino (*Signed by Tammye H. Trevino*)
Administrator
Housing and Community Facilities Programs

SUBJECT: Single Family Housing Guaranteed Loan Program
Documentation of Adverse Credit Waiver, Ratio Waiver Request
and Confirmation of Underwriting

PURPOSE/INTENDED OUTCOME:

The purpose of this Administrative Notice (AN) is to elaborate upon the Agency's expectations on the Single Family Housing Loan Program (SFHGLP) regarding lender file documentation on the subject of compensating factors utilized in credit waiver authorizations, compensating factors utilized when requesting repayment ratio waivers and documentation of underwriting performed.

COMPARISON WITH PREVIOUS AN:

No previous AN has been published on this subject.

EXPIRATION DATE:
July 31, 2010

FILING INSTRUCTIONS:
Preceding RD Instruction 1980-D

BACKGROUND:

Effective loan portfolio management begins with oversight of the risk in individual loans. Approved lenders are required to underwrite individual mortgage loan applications to Rural Development requirements. Adequacy of income to repay the requested loan, evaluation of how the applicant(s) handled past credit and other components of creditworthiness determines an acceptable credit risk.

Credit

When loans are manually underwritten, Rural Development expects the individual loan file to contain clear evidence that the lender evaluated the credit information for each borrower and arrived at a conclusion that the borrower's credit history demonstrates an ability to handle financial obligations successfully in accordance with §1980.345(d).

When a mortgage loan file is subject to documentation of a credit waiver, the lender must document the compensating factors as well as the rationale that was applied in the course of making the final decision to approve a loan with adverse credit. In some cases, a letter from the borrower may provide a sufficient explanation for the borrower to receive favorable consideration despite the derogatory credit; in others, lenders may need to request additional verifications or documentation to back up the borrower's explanation and support a lender's decision to approve a loan. This documentation would be retained in the lender's permanent loan file. It remains the lender's decision to adequately support their decision for waiving adverse credit. **Rural Development does not underwrite SFHGLP loans or issue credit waivers.**

Debt-to-Income Ratios

Ratios that compare the applicant's anticipated monthly housing expense and total monthly obligations to his/her stable monthly gross income are used to determine whether the borrower will be able to meet the expenses involved in home ownership. Standards have been established for qualifying ratios at RD Instruction 1980-D, §1980.345(c)(3). However, a lender may request Rural Development's concurrence to utilize a higher ratio when there are fully documented compensating factors that justify using the higher ratio. **Lenders must support and document all decisions regarding the underwriting ratios.** The supporting documentation justifying the lenders request to exceed standards set forth in §1980.345(c)(3) must be submitted to Rural Development with the written request to exceed the maximum authorized ratio.

Underwriting

Once the loan underwriting process is complete, to facilitate a *Request for Single Family Housing Loan Guarantee*, the lender will submit written documentation addressing loan eligibility which includes the lender's loan underwriting analysis. Lenders should prepare a *Uniform Underwriting and Transmittal Summary* (Fannie Mae Form 1008/Freddie Mac Form 1077), **or similar form**, to summarize the key data from the loan application package used in reaching its decision. The focus of the form is to summarize the representative information used in the comprehensive risk assessment of the mortgage application and the final underwriting decision. The form also records who performed the underwriting decision.

For all manually underwritten mortgages, lenders should retain the Fannie Mae Form 1008/Freddie Mac Form 1077, **or similar form**, in the lender's permanent mortgage file. Optional retention of the underwriting summary form is granted for automated underwriting decisions receiving an *Accept* in Rural Development's Guaranteed Underwriting System (GUS) as the *GUS Underwriting Findings Report* is the retained underwriting document.

IMPLEMENTATION RESPONSIBILITIES:

Adverse Credit Waivers

Waivers considered by the lender in the underwriting decision involving adverse credit that are subject to credit waiver documentation must be fully documented in the underwriting analysis in accordance with §1980.353(c)(12) of RD Instruction 1980-D. The suggested form is Fannie Mae Form 1008/Freddie Mac Form 1077, **or a similar form**. The suggested area to document waivers granted and the basis utilized for granting the waiver is *Section III, Underwriting Comments*.

Debt-to-Income Ratios

Compensating factors considered by a lender when requesting a ratio waiver by Rural Development must be fully documented in the underwriting analysis in accordance with §1980.353(c)(12) of RD Instruction 1980-D. The suggested form is Form Fannie Mae 1008/Freddie Mac 1077, **or a similar form**. The suggested area to document the ratio waiver request is *Section III, Underwriting Comments*. Documentation of compensating factors supporting the lender's request must accompany the request. **Written concurrence of granted ratio waivers by Rural Development is required by §1980.345.**

Underwriting

The lender's loan underwriting analysis (Form Fannie Mae 1008/Freddie Mac 1077 or similar form) must accompany each *Request for Single Family Housing Loan Guarantee*. The loan must be underwritten by an approved lender. Written evidence of underwriting is required **PRIOR** to issuance of a *Conditional Commitment for Single Family Housing Loan Guarantee*. The signature of who performed underwriting must be evident on the loan underwriting analysis.

Documentation Example

III. Underwriting Information			Appraiser's Name/Loans #		Appraisal Company Name	
Underwriter's Name						
Stable Monthly Income					Present Housing Payment: \$	
	Borrower				Proposed Monthly Payments	
Base Income	\$				Borrower's Primary Residence	
Other Income	\$				First Mortgage P&I	
Positive Cash Flow (subject property)	\$				Second Mortgage P&I	
Total Income	\$ 0.00	\$ 0.00			Hazard Insurance	
					Taxes	
					Mortgage Insurance	
					HOA Fees	
					Lease/Ground Rent	
					Other	
					Total Primary Housing Expense \$ 0.00	
Qualifying Ratios			Loan-to-Value Ratios		Other Obligations	
Primary Housing Expense/Income	%		LTV	%	Negative Cash Flow (subject property)	
Total Obligations/Income	%		CLT/TLTV	%	All Other Monthly Payments	
Debt-to-Housing Gap Ratio (Freddie)	%		HCLT/HTLTV	%	Total All Monthly Payments \$ 0.00	
Qualifying Rate			Level of Property Review		Escrow (T&I)	
<input type="checkbox"/> Note Rate	%		<input checked="" type="checkbox"/> Exterior/Interior		<input type="checkbox"/> Yes <input type="checkbox"/> No	
<input checked="" type="checkbox"/> % Above Note Rate	%		<input type="checkbox"/> Exterior Only			
<input type="checkbox"/> % Below Note Rate	%		<input type="checkbox"/> No Appraisal			
<input type="checkbox"/> Bought-Down Rate	%		Form Number:			
<input type="checkbox"/> Other	%					
Risk Assessment			Community Lending/Affordable Housing Initiative		<input type="checkbox"/> Yes <input type="checkbox"/> No	
<input checked="" type="checkbox"/> Manual Underwriting			Home Buyers/Homeownership Education Certificate in file		<input type="checkbox"/> Yes <input type="checkbox"/> No	
<input checked="" type="checkbox"/> AUS						
<input type="checkbox"/> DU <input type="checkbox"/> LP <input type="checkbox"/> Other						
AUS Recommendation						
DU Case ID/LP AUS Key#						
LP Doc Class (Freddie)						
Representative Credit/Indicator Score						
Underwriter Comments						
Adverse Credit Waiver: [Document basis for waiver]						
Request for Ratio Waiver: [Document compensating factors]						

Underwriter's signature on 1008 or similar

Document 1008 or similar with basis for credit waiver and/or compensating factors for ratio waiver

Agency Information

Rural Development should update the *Agency Comment* portion of the GLS Application page for manually underwritten loans or the USDA Administration page for those loans in GUS that receive an underwriting recommendation **other than *Accept*** when credit and ratio waivers are involved in the loan guarantee request. Comments input by Rural Development are permanent to the electronic GLS application data file.

Example/GLS Application page:

Agency Information

Funding: General

Reservation Number: _____ Expiration Date: _____

Application Status: _____

Received Date *
Month: [] Day: [] Year: []

Completion Date
Month: [] Day: [] Year: []

Eligibility Date
Month: [] Day: [] Year: []

Approval Date
Month: [] Day: [] Year: []

Obligation Date

Conditional Commitment Term: 90 Days

Agency Comments: []

Cancellation Date
Month: [] Day: [] Year: []

Appeal Date
Month: [] Day: [] Year: []

Cancellation Reason: []

Agency Decision Upheld

Agency Decision Overturned

Originating State * []

Originating Office * []

Servicing State * []

Servicing Office * []

Example/GUS USDA Administration page:

Borrower Name: _____ Lender Loan Number: _____ Agency ID Number: _____

Agency | Financials | Loan Purpose | Checklist

Agency Information

Application Status: Pending

Received Date: []

Eligibility Date: []

Eligibility Rural Area: Unable To Determine

Max Income: \$49,550.00 Limits

Eligibility Income Indicator: Eligible

Estate Type: Fee Simple (Non-Reservation)

Agency Comments: []

Conditional Commitment Term Days: 90

Cancellation Reason: Select One

Originating State: Select One

Originating Office: Select One

Servicing State: Select One

Servicing Office: Select One

USDA Administration

Financial Information

Imaging

Imaged credit documents in the Rural Development Imaging Repository must include the lender's documented decision of any adverse credit waiver granted, documented compensating factors utilized in the lender's request for ratio waiver and documentation of the loan underwriting analysis performed by the approved lender.

Questions regarding this AN should be directed to Debbie Terrell at 918.534.3254, or Dave Chaput at 202.720.1456, or by email at debra.terrell@wdc.usda.gov or david.chaput@wdc.usda.gov.