

# USDA PRODUCT OFFERING

**AUGUST 1, 2015**



**Planet Home Lending**  
WE'LL GET YOU HOME



# WHY WE'ER HERE



- ✓ Define USDA products and features
- ✓ Introduce Planet Home Lending's USDA product offerings
- ✓ Learn how to determine property and borrower eligibility
- ✓ Review credit, income, asset and appraisal guidelines
- ✓ Tips for calculating a USDA loan amount
- ✓ Tips for preparing a USDA GFE
- ✓ Provide USDA helpful resources

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# WHAT IS A USDA LOAN?



- ✓ USDA Rural Development's Single Family Housing Guaranteed Loan Program is intended to assist low to moderate income, rural homebuyers
- ✓ 100% financing for a home purchase, or refinancing, for properties located in a USDA designated rural area
- ✓ Applicant's may have up to 115% of the median income for the area
- ✓ Guaranteed by the US Department of Agriculture (USDA)

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# WHY USDA?



- ✓ Key program highlights include:
  - Maximum loan amount up to appraised value plus a one time Guarantee Fee of 2% on purchases
  - No Mortgage Insurance required
  - No cash contribution (down payment) or cash reserve requirement
  - Primary residences only
  - Not limited to first time homebuyers
  - Low to moderate income buyers

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# PRODUCT TYPES AND TERMS



	Purchase/Non-Streamlined Refinance	Streamlined Refinance	Pilot Program
Appraisal required?	Yes -Full appraisal (Completed by FHA roster appraiser on purchase)	No	Yes - 2055 exterior only
Loans eligible for refinancing	Section 502 Direct or Guaranteed Loan (no conventional, FHA, VA)	Guaranteed Loan only (no USDA 502 Direct, conventional, FHA, VA)	Section 502 Direct or Guaranteed Loan (no conventional, FHA, VA)
Do income limits apply?	Yes	Yes	Yes
Is property required to be in rural area?	<b>Purchase</b> – Yes <b>Refinance</b> – No. If property was eligible at origination it is eligible for refinance even if no longer in rural area as defined by USDA	No - If property was eligible at origination it is eligible for refinance even if no longer in rural area as defined by USDA	No- If property was eligible at origination it is eligible for refinance even if no longer in rural area as defined by USDA
Does property have to be a primary residence	Yes	Yes	Yes
Eligible states	All Except Massachusetts	All Except Massachusetts	Limited to: AK, AL, AR, AZ, CA, CO, FL, GA, ID, IL, IN, KS, KY, MI, MO, MS, MT, NC, ND, NJ, NM, NV, OH, OK, OR, RI, SC, SD, TN, TX, UT, WA, WI, WV
Credit report required?	Yes - Full	Yes - Full	Yes - Mortgage only on subject property
Mortgage History/ Seasoning	<b>Purchase</b> - > 680 credit score, not required ≤ 680 12 month housing history required <b>Refinance</b> – 0x30 in previous 12 months Minimum of 6 months payment history on current mortgage for the subject property	0x30 in previous 12 months - Minimum of 6 months payment history on the current mortgage for the subject property.	0x30 in previous 12 months - 12 months of payments on the current mortgage secured by the subject property required
Interest rate and loan term	Fixed rate - 30 years	Fixed rate - 30 years	Fixed rate: Must be a minimum of 1% below the borrower's current interest rate; 30 year loan term
DTI	Maximum 45% regardless of GUS findings	29%/41% On an exception basis max 32%/44% subject to: Rural Development approval. Additionally, all borrowers must have ≥ 680 credit score and meet compensating factor requirement*	Not applicable – debt ratios not calculated

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# PRODUCT TYPES AND TERMS (CONT.)



	Purchase/Non-Streamlined Refinance	Streamlined Refinance	Pilot Program
What may be included in new loan amount?	Principal balance plus guarantee fee, accrued interest (refis), eligible closing costs, and lender fees may be included if including if including does not exceed 100% LTV (if financing guarantee fee 102% LTV allowed)	Principal balance plus guarantee fee only <b>No</b> accrued interests, closing costs, etc. may be included in the new loan amount	Principal balance plus accrued interest, eligible closing costs, lender fees, guarantee fee, plus origination fee not to exceed the lesser of 2% of the loan amount or \$3,000
Closing costs and lender fees	Normal and customary allowed	Normal and customary allowed	Normal and customary allowed but may not exceed the cost paid by the lender or charged to the lender by the service provider
Cash-out allowed? (Principal reduction required if cash back > borrower out of pocket money)	No	No	No
Manual Underwriting	No	Yes	Yes
Is adding/deleting borrowers allowed?	<b>Refinance</b> – Yes New borrowers may be added and existing borrowers may be deleted however one existing borrower must remain on the loan and title.	Yes New borrowers may be added and existing borrowers may be deleted however one existing borrower must remain on the loan and title.	Yes New Borrowers may be added however existing borrowers may <b>not</b> be removed unless they are deceased.
Termite/Septic/Well required	<b>Purchase</b> – Well always required. Termite/septic if appraiser indicates issue <b>Refinance</b> - No	No	No
Reserves	Not required	Not required	Not required

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# REFINANCE PRODUCT COMPARISON



Non-Streamlined Refinance Benefits	Streamlined Refinance Benefits	Pilot Program Benefits
<ul style="list-style-type: none"> <li>✓ Direct 502 and Guaranteed loans may be refinanced</li> <li>✓ New loan amount may include accrued interest, guarantee fee and closing costs if including does not exceed appraised value.</li> <li>✓ New borrowers may be removed (as long as one original borrower remains on the loan/title).</li> <li>✓ Eligible in all states except Massachusetts</li> </ul>	<ul style="list-style-type: none"> <li>✓ Guaranteed loans may be refinanced</li> <li>✓ No appraisal required</li> <li>✓ New borrowers may be added and existing borrowers may be removed (as long as one original borrower remains on the loan/title)</li> <li>✓ Eligible in all states except Massachusetts</li> </ul>	<ul style="list-style-type: none"> <li>✓ Direct 502 and Guaranteed loans may be refinanced</li> <li>✓ 2055 exterior-only appraisal</li> <li>✓ Mortgage-only credit report</li> <li>✓ Debt ratios not calculated</li> <li>✓ New loan amount may include principal balance plus guarantee fee, accrued interest, eligible closing costs, and lender fees. Additionally, an origination fee, not to exceed 1% of the loan amount may also be charged.</li> </ul>

✓ NOTE: Pilot Refinances do not have a DTI calculation but do require income documentation be provided to determine income eligibility

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# MAXIMUM INTEREST RATE



- ✓ Rural Development has a maximum rate that can be charged
- ✓ The maximum rate is based on the 90 day Fannie Mae 30 year A/A Yield + 100 basis points and rounded up to the next 1/4%

Example:

Fannie Mae 90 day 30 year fixed rate A/A	=	4.72%
Add 60 basis points		
		<u>+ .100</u>
Total		5.72%
Rounded up to next 1/4%		5.75%
Maximum rate	=	5.75%

Fannie Mae rates can be found at:

<https://www.fanniemae.com/singlefamily/historical-daily-required-net-yields>

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# DETERMINING ELIGIBILITY



- ✓ The first step in qualifying a potential USDA applicant is determining Borrower, Property and Income eligibility:
  - Subject property not a part of or associated with an urban area
  - Area population is generally less than 20,000
  - Income cannot exceed 115% of the HUD median income limit for the area
  - Income based on number of people occupying the property as their primary residence
  - Income includes total gross income of applicant, co-applicant and other household adults

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# BORROWER ELIGIBILITY



- ✓ To qualify for USDA, the borrower must:
  - Earn adequate and dependable income
  - Provide proof of residency as a U.S. Citizen, Legal Permanent Resident or Non-Permanent Resident Alien
  - Meet income eligibility requirements
  - Live in a USDA eligible area
  - Have a valid social security number; TIN not acceptable
  - Not require a co-signer or non-occupant co-borrower

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# BORROWER ELIGIBILITY



- ✓ Borrower may retain only ONE dwelling in addition to the new property financed
- ✓ Property to be retained must be:
  - Deemed unsafe or unsound or requires significant retrofitting to accommodate the disability/limited mobility of a household member
  - No longer adequate size for family

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# PROPERTY ELIGIBILITY

- ✓ Property eligibility for purchase transactions:
  - Use the Single Family Housing property eligibility search on the USDA website <http://eligibility.sc.egov.usda.gov>. Properties must be located in a rural area as defined by USDA to be eligible for this program.
  - Enter the property address and confirm the property is located in an eligible area:



Note on Refinances: If property was eligible at origination, it is eligible for refinance if even if it is no longer in a USDA rural area.

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# PROPERTY ELIGIBILITY



- ✓ Eligible Property Types:
  - 1- unit single family reside
  - 1-unit PUD
    - Project review not required
  - Condo
    - Must meet Fannie Mae, HUD or VA guidelines and be common to area
    - Purchases in non-approved projects will require a full review
    - Planet Home Lending will require supporting documents to ensure project meets Fannie Mae requirements and the Planet Home Lending Condo/PUD Warranty Form is required
  - Modular
  - New Construction

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# PROPERTY ELIGIBILITY



- ✓ Ineligible Property Types:
  - Income producing properties or “working farms”
  - 2-4 units
  - Properties with buildings or equipment for specific income producing purposes or large farm service buildings
  - Properties with windmills, wind turbines, or cell phone towers
  - Manufactured
  - Second/vacation homes

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# INCOME ELIGIBILITY



- ✓ There are 3 distinct income calculations that must be considered for income eligibility:
  1. Annual Income (Household Income): All income received by adult household members that will reside in our subject property
  2. Adjusted Annual Income: Annual Income minus eligible household deductions, determines whether the household is eligible
  3. Repayment Income (Qualifying Income): The stable and dependable income utilized to calculate housing and total debt ratios. Only the applicants that will be a party to the note are considered.

A sample Questionnaire and Income Eligibility Worksheet can be found at: [www.phlcorrespondent.com/forms](http://www.phlcorrespondent.com/forms)

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# CALCULATING ANNUAL INCOME



✓ To calculate Annual Income add the gross income amount of all adult household members (18 years old and up) and projected income from all sources for the next 12 months:

– Example Income Types Include:

- Gross income from taxable sources
- Interest/Dividend income
- Rental Income
- Social Security/Unemployment/Disability
- Alimony/Child Support
- Income on any net family assets in excess of \$5,000 after closing

Note: This calculation projects the income that the adult household will potentially earn in the next 12 months

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# CALCULATING ADJUSTED INCOME



- ✓ To calculate Adjusted Income deduct the following from the Annual Income amount:
  - Deduct \$480 for each person who is:
    - Under 18
    - Disabled and is 18 or over
    - A full-time student who is 18 or older
  - Deduct a flat \$400 for an applicant, 62 years or older, and is:
    - Head-of-Household
    - Spouse
    - Sole household member

**NOTE: One time deduction; not per person**

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# CALCULATING ADJUSTED INCOME (CONT.)



- ✓ If the applicant is eligible for the flat \$400 deduction, described in the previous slide, the family is classified an Elderly Family Family - See USDA HB 1-3555 for additional options in classifying Elderly/Disabled Family
  - Deduct Medical and Disability expenses in excess of 3% of gross annual income for an Elderly or Disabled Family:
    - Projected medical expenses for ensuing 12 months
    - Costs not covered by insurance
    - Reasonable attendant care
    - Equipment to enable handicapped household member
  - Deduct child care expenses for minors 12 years and under:
    - Enables the applicant to be employed or educated (i.e. child care)
    - Cannot exceed the amount of income received from applicant's employment
    - Payments (i.e., childcare) cannot be made to any dependent of applicant

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# CALCULATED ADJUSTED INCOME (CONT.)



- ✓ Cannot exceed the limit set by Rural Development for the state/county where the property is located
- ✓ The final adjusted income must be  $< 115\%$  of the area median
- ✓ Deductions assist the applicant's ability to qualify
- ✓ Non-applicant household member's most recent paystub showing current YTD will be used for Annual Income Calculation
  - For non-wage earners, alternative documentation may be required

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# INCOME ELIGIBILITY WORKSHEET SAMPLE



## USDA Rural Development Borrower Questionnaire and Income Eligibility Worksheet

**This completed worksheet may be used for USDA Purchase, Non-Streamlined,  
Streamlined and Pilot Refinance Programs**

### Borrower Questionnaire

Completing the information below will ensure accurate information is provided to USDA to determine borrower eligibility. A worksheet has been provided on page 2 to ensure all allowable deductions are applied prior to entering the information in the USDA website at [USDA Income Eligibility](#).

1. Have you or any co-borrower been banned from doing business with the federal government? <sup>1</sup>  Yes  No
2. Does the borrower(s) have a relationship with any current Rural Development employee? If yes, explain \_\_\_\_\_  Yes  No

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# INCOME ELIGIBILITY WORKSHEET SAMPLE



## Income Eligibility Worksheet

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### Borrower Questionnaire

Completing the information below will ensure accurate information is provided to USDA to determine borrower eligibility. A worksheet has been provided on page 2 to ensure all allowable deductions are applied prior to entering the information in the USDA website at [USDA Income Eligibility](#).

1. Have you or any co-borrower been banned from doing business with the federal government? <sup>1</sup>  Yes  No
2. Does the borrower(s) have a relationship with any current Rural Development employee? If yes, explain \_\_\_\_\_  Yes  No
3. **Total** number of persons who will be living in the subject property for all or part of the next 12 months.<sup>2</sup> \_\_\_\_\_ **5**
4. Number of persons who will be living in the property who are a) under 18 years of age; b) 18 years of age or older **and** a full time student; c) 18 years of age or older and disabled.<sup>3</sup> \_\_\_\_\_ **2**
5. Number of persons who will be living in the property who are 62 years of age or older.<sup>4</sup> \_\_\_\_\_ **0**  
*Grandma does live here but is not head of household/spouse so no deduction is applied*
6. Amount of **annual** childcare expenses incurred for minor children (12 years and under) that are necessary so you can be gainfully employed or attend school.<sup>5</sup> \_\_\_\_\_ **\$ 6,000**
7. Amount of **annual** medical expenses incurred for members of the household 62 years of age or older or for the care of a disabled household member that exceed 3% of the gross household income that are not covered by insurance.<sup>6</sup> \_\_\_\_\_ **\$ 0**

Borrower Signature \_\_\_\_\_

Date \_\_\_\_\_

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# INCOME ELIGIBILITY WORKSHEET SAMPLE



## ✓ Page 1 footnotes regarding eligibility

1. If any borrower is banned from doing business with the U.S. government, the loan is ineligible.
2. List all persons who will be occupying the property as their primary residence, for all or part, of the upcoming 12 months.
3. Identify the number of persons identified in question 3 that also fall into category a, b, or c. USDA allows a deduction of \$480 for each family member under 18, is 18 or older and a full time student or any adult (18 and over) who is disabled.
4. Identify the number of persons identified in question 2 that are 62 years of age or older. If any person residing in the home is 62 years of age or older a one-time flat deduction of \$400 deduction is allowed by USDA.
5. The annual amount of child care expenses may be deducted as long as the payment for these services are not made to anyone you are claiming as a dependent on your income taxes. A written justification/explanation will be required.
6. Expenses not covered by insurance (e.g. dental, prescription medications, medical insurance premiums, glasses, hearing aids, home nursing care, monthly payments on major medical bills and full time nursing/institutional care which cannot be provided by another member of the household for any household member 62 years of age or older). For disabled household members, the reasonable expenses for the care of the individual including care attendant to assist with daily activities including wheelchairs, ramps, adaptations to vehicles that allowing a household member to work (applies to any disabled household member).

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# INCOME ELIGIBILITY WORKSHEET SAMPLE



## Income Calculation Worksheet

Provide income received from all household members (not just borrowers) ages 18 and over. Include the base income from your main employment and any additional income received. Use a separate line for each income source. Additional income may include bonus, commission, overtime, tips, part-time employment, National Guard, child support, social security, alimony, pension, supplemental (e.g. coaching contract), annuities, insurance policies, etc.

NOTE: Do not include income from children under 18, food stamps, foster care income, lump-sum payments, inheritances, or other types of income not received on a regular basis.

Income Source	Household Member Receiving Income	Amount of Monthly Income	Annual Income (Multiple the amount in the monthly column by 12)
Base Income	Ken Customer	\$3,000	\$ 36,000
Social Security	Ethel Customer	\$600	\$ 7,200
			\$
			\$
			\$
			\$
			\$
			\$
			\$
			\$
			\$
Total Annual Income (sum of all income in the annual income column)			\$ 43,200

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# INCOME ELIGIBILITY WORKSHEET SAMPLE



## Deductions

USDA allows the following to be deducted from the gross annual income for qualifying household members to determine program income eligibility.

1. Number of persons under 18 in household:	<u>2</u>	x \$480	\$ <u>\$960 -</u>
2. Number of full time students (18 and over) :	<u>          </u>	x \$480	\$ <u>\$0 -</u>
3. Number of disabled adults (18 and over):	<u>          </u>	x \$480	\$ <u>\$0 -</u>
4. Any household member 62 years of age or older (one deduction only):		\$400	\$ <u>\$0 -</u>
5. Medical/disability expenses > 3% of gross annual income (un-reimbursed) (Insert the amount determined from question 7 on pg. 1)			\$ <u>\$0 -</u>
6. Annual child care expenses (As determined from question 6 on pg. 1)			\$ <u>\$6,000</u>

**Total Deductions (items 1-6)**      \$ \$6,960

Total Annual Income      \$ \$43,200

Minus Allowable Deductions      \$ (\$6,960)

**Adjusted Income**      \$ \$36,240

The median income for a 5 person household in Syracuse County, NY is \$101,100. This household DOES meet the USDA income eligibility limits

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# CALCULATING REPAYMENT INCOME



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- ✓ To calculate Repayment Income (Qualifying Income), include the gross amounts of income that is stable and dependable for all applicants:
  - Document a history of receipt and assurance of continuance
  - Wage Earner:
    - Current paystubs for previous 30 days with YTD income + Previous 2 Years W-2s
  - Self Employed:
    - 2 years tax returns + YTD P & L + Balance Sheet + YTD Income & Expense Statement
  - Repayment income is used to calculate DTI ratios
  - Income documentation must be < 120 day from the Note date

Note on Pilot Program: Reduced income documentation is required for eligibility but DTI is NOT calculated

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# INCOME ELIGIBILITY

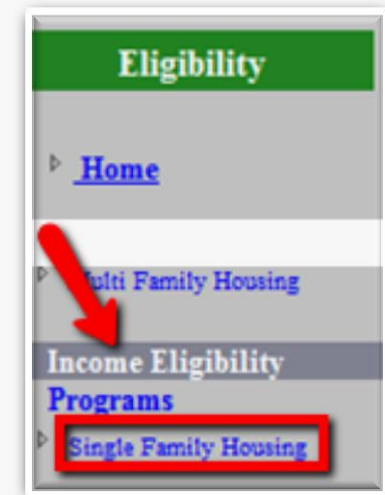


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✓ Once the three income types have been calculated, income eligibility can be determined.

– Income Eligibility:

- Use the Income Eligibility search on the USDA website: <http://eligibility.sc.egov.usda.gov>



✓ Choose the state and county that the subject property is located in:

**Single Family Housing Income Eligibility**

**Property Location**

State : California  
County : Orange

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# INCOME ELIGIBILITY

- ✓ Complete Household Member(s) Information:

### Household Members Information

Number of People in Household  
*(Include all persons living in the household except foster adults and foster children.)*

Number of Residents Under 18 Years Old, Disabled or Full Time Students  
*(Do not include the applicant, spouse, or co-applicant)*

Is Loan Applicant or Co-Applicant age 62 or older?

Are there any Disabled Persons Living in the Household?

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# INCOME ELIGIBILITY

- ✓ Complete all fields that apply for Deductions and Income:  
Tip: Click the question mark symbol for field definitions

**Expenses and Deductions**  
Annual Child Care Expenses : 2000 1

**Gross Monthly Income**

	Applicant	Other Household Member	
Base Employment Income	3000		<span>2</span> ?
Overtime Income	0	0	?
Bonus Income	0	0	?
Commission Income	0	0	?
Self-Employment Income	0	0	?
Dividend/Interest Income	0	0	?
Net Rental Income	0	0	?
Other Income	0	0	?

All Other Income Received by Adult Members of the Household : 1500 3  
(See help for further explanation)

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# INCOME ELIGIBILITY

- ✓ Confirm income is Eligible for the 502 Guaranteed Rural Housing Loan:

Single Family Housing Program  
Income Eligibility Determination Summary

Applicant is **ELIGIBLE** for the Section 502 Guaranteed Rural Housing Loan Program and **ELIGIBLE** for the Section 502 Direct Rural Housing Loan Program based on income entered and Program Income Guidelines in effect as of 04-22-2013. (Applicant must show repayment ability, have a reasonable credit history for the loan requested, and must meet other program requirements.)

[Contact Us](#) for further details on the Guaranteed Loan Program.  
[Contact Us](#) for further details on the Direct Loan Program.

**Summary of Adjusted Annual Household Income**

Annual Household Income :	<b>\$54,000.00</b>
Total Deductions :	<b>\$2,960.00</b>
Household Adjusted Annual Income :	<b>\$51,040.00</b>

**Section 502 Guaranteed Rural Housing Loan Program**

Maximum Adjusted Household Income for Selected State and **\$95,250.00**  
County :

**Section 502 Direct Rural Housing Loan Program**

Maximum Adjusted Household Income for Selected State and **\$66,250.00**  
County :

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# CREDIT REQUIREMENTS



- ✓ Credit reports must be < 120 days from the Note date
- ✓ Minimum 640 FICO required on all USDA programs

	Purchase/Non-Streamlined Refinance	Streamlined Refinance	Pilot Program
Credit report required?	Yes Full	Yes Full	Yes Mortgage only on subject property
Mortgage History/Seasoning	Purchase - > 680 credit score, not required ≤ 680 12 month housing history req'd Refinance - 0x30 in previous 12 months Minimum of 6 months payment history on the current mortgage for the subject property	0x30 in previous 12 months Minimum of 6 months payment history on the current mortgage for the subject property.	0x30 in previous 12 months 12 months of payments on the current mortgage secured by the subject property required

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# CREDIT REQUIREMENTS



- ✓ Any of the following are indicators of an unacceptable credit history per Rural Development:
  - More than one 30 day late within the past 12 months (refinance transactions require 0x30 on mortgage)
  - Bankruptcy or foreclosure that occurred within the past 3 years
  - Outstanding tax liens or delinquent government debt
  - Outstanding judgments within the past 12 months
  - Any account converted to a collection in past 12 months
  - Outstanding collections accounts with no satisfactory payment arrangements
  - Any account written or charged off in past 3 years
  - Applicants with a foreclosure on a previous RD loan are ineligible

Note: Pilot Refinance will consider mortgage history on subject only

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# LIABILITY REQUIREMENTS



- ✓ Installment debt with 10 months or less omitted from DTI
- ✓ Revolving debts with no payment listed on credit
  - Use greater of \$10.00 or 5% of balance reported on credit used
- ✓ Child Support/Alimony/Garnishments are included in DTI
- ✓ 401K loans not included in DTI
- ✓ Deferred student loans must be included in DTI regardless of deferment period. Refer to USDA Program guides for requirements

Note: Pilot Refinance is exempt from these requirements as a mortgage only history is analyzed on subject property

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# LIABILITY REQUIREMENTS



- ✓ All federal debts and judgments must be paid in full or otherwise resolved with supportive documentation
  - CAIVRS identifies any delinquent federal debts
  - CAIVRS claims must have official documentation that the delinquency has been paid in full or otherwise resolved

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# RATIO REQUIREMENTS



- ✓ USDA HPML Loans will be restricted to 43% DTI on all products
- ✓ Debt of non-purchasing spouse included in DTI when applicant lives in  
a community property state or property is located in a  
community property state
- ✓ Maximum DTI:
  - Purchase/Non-Streamlined Refi: 45% regardless of GUS Findings
  - Streamlined Refi: 29%/41%. Exceptions may be granted to 32%/44% (refer to guidelines for requirements for exceptions)
  - Pilot Program: DTI not calculated

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# ASSET REQUIREMENTS



✓ Purchases: Always required regardless of down payment  
– Used to qualify conventional finance testing

✓ Refinances: Required when funds are needed to close

## Documentation:

✓ 2 months bank statements dated within 45 days of application date

– Checking/Savings

– Sale proceeds from an owned property

– 401k/Retirement accounts at 60% of vested account balance

– Stocks and Bond

✓ Asset documentation must be < 120 days from the Note date

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# ASSET REQUIREMENTS



- ✓ Gift funds allowed for closing costs or may be applied to Guarantee Fee or towards voluntary down payment on purchases
  - May not be used towards cash reserves as a compensating factor
  - May not come from a household member
  - Transfer of gift funds and donor's ability must be documented

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## The Conventional Finance Test:

- ✓ Borrowers must lack the ability to qualify for conventional purchase financing to be eligible for USDA financing
- ✓ If an applicant meets all six criteria below, they are considered eligible for conventional financing:
  - 20% down in available liquid assets, excluding retirement
  - Additional funds after down payment are available to pay for closing costs and fees
  - Applicant is not required to obtain private mortgage insurance
  - DTI does not exceed 28/36 with a loan amount at 20% down
  - No adverse credit, prohibiting conventional financing
  - Acceptable credit history length and tradelines

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# PURCHASES



- ✓ First Time Homebuyer Education
- ✓ Rural Development may require the applicant to complete homebuyer education counseling as part of the conditional commitment
- ✓ Planet Home Lending will only require this when required by Rural Development
- ✓ Requirement is based on local practice for individual USDA offices
  
- ✓ Seller Contributions
- ✓ Allowed up to 6%
- ✓ Eligible for closing costs, down payment, or repairs

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- ✓ Payment Shock
  - Payment shock is considered a risk layer when:
    - DTI > 29% and
    - New PITI is > 100% of applicant's current housing payment or
    - The applicant does not have a housing payment history
- ✓ To calculate payment shock:
$$\text{Proposed PITI} \div \text{current housing} - 1 \times 100$$
$$= \text{Payment Shock Percent}$$
- ✓ Loans where payment shock is a risk layer are acceptable if there are **no** additional risk layers **and** strong, **documented** compensating factors are evident (cash reserves, credit score > 680, potential for increased earnings, etc.)

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# APPRAISAL REQUIREMENTS



- ✓ Appraisal report type varies by product:
  - Purchase/Non-Streamlined Refi: Full appraisal required
  - Streamlined Refi: No appraisal required
  - Pilot Refinance: 2055 Exterior-only
- ✓ Appraisal must be  $\leq$  120 days old at loan closing and must include a Market Condition Addendum (Fannie Mae Form 1004MC)
- ✓ A 30 day extension of the appraisal is allowed per USDA guidelines. The appraisal with an extension must be  $\leq$  150 days from the effective date of the appraisal at loan closing (120 days + 30 day extension)
- ✓ Purchases/Non-Streamlined Refinances only:
  - Appraisal transfers are allowed

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# ADDITIONAL PROPERTY REQUIREMENTS



- ✓ **Termite inspections:** Only required when purchase contract requires one or there is evidence of infestation
- ✓ **Well inspections:** Required on purchase transactions
- ✓ **Septic inspections:** Only required if defects noted by appraiser
- ✓ Escrow Holdbacks are not permitted
- ✓ Value of the lot cannot exceed 30% of appraised value

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# GUARANTEE FEE



- ✓ There is a non-refundable up front Guarantee Fee on USDA loans
- ✓ The Guarantee Fee can be:
  - Paid in cash
  - Paid by seller, lender credit or gift funds
  - Financed in to the loan amount
  - Partially financed into the loan amount
- ✓ The Guarantee Fee is 2% of the total loan amount for:
  - Refinances
  - Purchases

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# CALCULATING LOAN AMOUNTS



Purchase & Non-Streamlined Refinance	Streamlined Refinance	Pilot Program Refinance
<ul style="list-style-type: none"> <li>✓ New loan amount can include:                             <ul style="list-style-type: none"> <li>- Upfront Guarantee Fee</li> <li>- Eligible closings costs*</li> <li>- Lender fees*</li> <li>- Accrued interest (refis)*</li> </ul> </li> </ul> <p>*Not to exceed 100% of the appraised value</p>	<ul style="list-style-type: none"> <li>✓ New loan amount can include:                             <ul style="list-style-type: none"> <li>- Principal balance on existing loan</li> <li>- Upfront Guarantee Fee</li> </ul> </li> <li>✓ Maximum loan amount cannot exceed existing balance on loan being refinanced</li> </ul>	<ul style="list-style-type: none"> <li>✓ New loan amount can include:                             <ul style="list-style-type: none"> <li>- Principal balance on existing loan</li> <li>- Accrued interest</li> <li>- Upfront Guarantee Fee</li> <li>- Eligible closing costs</li> <li>- Lender fees</li> <li>- Origination fee of the &lt; 2% of total loan amount or \$3,000 (Borrower &amp; Lender paid)</li> </ul> </li> </ul>

✓ Note: Maximum LTV is 102% when financing the 2% Guarantee Fee

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# CALCULATING LOAN AMOUNTS



- ✓ Example #1: Purchase
  - Financing USDA's Guarantee Fee
  - Purchase Price \$250,000
  - Appraised Value \$258,000
  - Applicant wants to finance \$8,000 in closing costs in the loan since appraised value is higher than the purchase price

Base Loan Amount	\$258,000
	<u>÷ .98</u>
Total Loan Amount	\$263,265.30
Subtract Base Loan Amount	(\$258,000)
Guarantee Fee	\$5,265.30

- ✓ LTV is 102% after up front Guarantee Fee is included

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# CALCULATING LOAN AMOUNTS



- ✓ Example #2: Non-Streamlined Refinance
  - Financing USDA's Guarantee Fee
  - Appraised Value \$175,000
  - Principal balance on existing loan \$172,000
  - Applicant wants to finance \$3,000 in closing costs and accrued interest since appraised value is higher than the principal balance

Base Loan Amount		\$175,000
		÷ .98
Total Loan Amount	=	\$178,571.43
Subtract Base Loan Amount		(\$175,000)
Guarantee Fee	=	\$3,571.43

- ✓ LTV is 102% after up front Guarantee Fee is included

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# CALCULATING LOAN AMOUNTS



- ✓ Example #3: Streamlined Refinance
  - Financing USDA's Guarantee Fee
  - Appraised Value is \$300,000
  - Principal of existing loan \$255,000
  - This product does not allow for financing closing costs or accrued interest

Base Loan Amount	\$255,000
	÷ .98
Total Loan Amount	\$260,204.08
Subtract Base Loan Amount	(\$255,000)
Guarantee Fee	\$5,204.08

- ✓ LTV is 87% after up front Guarantee Fee is included

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# CALCULATING LOAN AMOUNTS



- ✓ Example #4: Pilot Program Refinance, Borrower Paid Compensation
  - Financing USDA's Guarantee Fee
  - Appraised Value is \$185,000
  - Principal of existing loan \$174,000
  - Applicant wants to finance up to \$7,000 in closing costs and accrued interest in addition to the principal balance
  - Closing costs and accrued interest, including a 1% origination are \$4,000

Base Loan Amount	\$178,000
	÷ .98
Total Loan Amount	\$181,633
Subtract Base Loan Amount	(\$178,000)
Guarantee Fee	\$3,632.65

- ✓ LTV is 98% after up front Guarantee Fee is included

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# ANNUAL FEE



- ✓ There is an annual fee that is collected on all USDA loans
  - Collected in the borrowers monthly payment
  - Similar to how monthly mortgage insurance is collected
  - Required for the life of the loan
- ✓ Purchase and Refinances = 0.50%
- ✓ The annual fee is based upon the unpaid principal balance
- ✓ The fee is re-calculated every year

## Example:

Loan Amount	=	\$175,000
Loan Amount X .004	=	\$700.00 annually
\$700 ÷ 12 months	=	\$58.33 monthly fee

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# USDA'S AUS SYSTEM: GUS



- ✓ Guaranteed Underwriting System (GUS)
  - ✓ GUS recommendation "Accept/Eligible" or "Refer/Eligible" on
    - Purchase, and
    - Non-Streamlined Refinances
- NOTE: "Refer/Eligible" requires a manual underwrite and compensating factors; refer to guidelines
- ✓ Calculates adjusted income
  - ✓ Checks property eligibility
  - ✓ Rates credit and debt profile
  - ✓ Calculates base and maximum loan amounts
  - ✓ Runs CAIVRS check
  - ✓ Seller runs at time of initial underwrite when applicable
  - ✓ Findings are no cost to borrower

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# CLOSING REMINDERS



- ✓ Borrower cannot receive any cash back at closing
  - Out of pocket money with supporting documentation allowed
    - Examples: Earnest deposit, appraisal fee
    - Principal reductions are required to avoid cash back at closing
    - Maximum Principal Reduction amount is 1% of loan amount
- ✓ Escrows are required
- ✓ Insurance: Required coverage is on loan amount only for loans where appraisal not required, or 2055/2075 when cost new section is not completed (i.e. Streamlined and Pilot Refis)
- ✓ POAs are eligible on an exception basis for closing docs only
  - All applicants must sign initial disclosures and application
- ✓ Verbal verification of employment within 10 days of Note date

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# REFERENCE TOOLS



- ✓ The most current information for USDA (guides and forms) can be found at:

[www.rd.usda.gov/publications/regulations-guidelines/handbooks#hb13555](http://www.rd.usda.gov/publications/regulations-guidelines/handbooks#hb13555)

- ✓ Property eligibility:

<http://eligibility.sc.egov.usda.gov/eligibility/welcomeAction.do?pageAction=sfp>

- ✓ Income eligibility:

<http://eligibility.sc.egov.usda.gov/eligibility/incomeEligibilityAction.do>

The Planet Home Lending USDA guidelines have active links to USDA property/income eligibility and guideline pages

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