

RD AN No. 4729 (1980-D)
August 20, 2013

TO: State Directors
Rural Development

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

FROM: Richard A. Davis *(Signed by Richard A. Davis)*
Acting Administrator
Housing and Community Facilities Programs

SUBJECT: Single Family Housing Guaranteed Loan Program
Debt Ratio Waivers and Compensating Factors

PURPOSE/INTENDED OUTCOME:

The purpose of this Administrative Notice (AN) is to clarify RD Instruction 1980-D, Section 1980.345(c), (7CFR §1980.345 (c)), with respect to debt ratio waivers that are supported by acceptable compensating factors. **This guidance applies to manually underwritten loan files and Guaranteed Underwriting System (GUS) files that receive a “Refer” or “Refer with Caution” underwriting recommendation.** This AN **does not** apply to GUS files that receive an “Accept” underwriting recommendation or an “Accept” underwriting recommendation that requires a “Full Documentation” loan submission.

COMPARISON WITH PREVIOUS AN:

This AN replaces RD AN No. 4710, dated February 28, 2013, which will expire on February 28, 2014. This AN clarifies that the debt ratio waiver requirements described in this notice apply only to purchase transactions and not to refinance transactions.

EXPIRATION DATE:
August 31, 2014

FILING INSTRUCTIONS:
Preceding RD Instruction 1980-D

IMPLEMENTATION RESPONSIBILITIES:

In accordance with RD Instruction 1980-D, Section 1980.345(c)(3), (7 CFR §1980.345(c)(3)), applicants have adequate repayment ability when the proposed principal, interest, taxes and insurance (PITI) to income ratio is equal to or less than 29 percent and the total debt (TD) ratio is equal to or less than 41 percent. The published **maximum authorized ratios are 29/41 percent (PITI/TD)**. However, Section 1980.345 (c)(5), of RD Instruction 1980-D, (7 CFR §1980.345(c)(5)) states, “If the applicant’s TD and/or PITI ratio exceed the maximum authorized ratio, the Lender may request Agency concurrence in allowing a higher ratio based on compensating factors.”

This AN becomes effective for complete applications received by the Agency on or after September 1, 2013.

A. Purchase Transactions

Agency concurrence of a debt ratio may be granted if all of the following conditions are met:

1. The PITI ratio is greater than 29 percent, but less than or equal to 32 percent, accompanied by a TD ratio not exceeding 44 percent; or
2. The TD ratio is greater than 41 percent, but less than or equal to 44 percent, accompanied by a PITI ratio not exceeding 32 percent; and
3. The credit score of all applicant(s) is 680 or greater; and
4. 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 (proposed housing expense) 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. The VOR or credit report must include the actual payment amount 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 3 months of PITI payments. A Verification of Deposit (VOD) or two consecutive bank statements, dated within 45 days of loan application, that document the average balance held by the applicant is required. 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 2 years. A “Request for Verification of Employment” (VOE) (Form RD 1910-5, comparable HUD/FHA/VA or Fannie Mae form, or other equivalent), or VOEs prepared by an employment verification service (The Work Number, etc.) must be provided. 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 captures 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 review.

B. Refinance Transactions

The debt ratio waiver requirements in this AN do not apply to refinance transactions.

Agency Concurrence with Ratio Waiver

The Agency signals to the lender its concurrence with the debt ratio waiver request by issuance of Form RD 1980-18, “Conditional Commitment for Single Family Housing Loan Guarantee.” The Agency must check the ratio waiver box in the Guaranteed Loan System for manually underwritten loans or on the USDA Administration page in GUS for “Refer” or “Refer with Caution” underwriting recommendation files. For purchase transactions, documentation submitted by the lender evidencing compensating factors must be imaged by USDA employees as an essential document in the Rural Development Imaging Repository.

Summary

There will be no exceptions to the ratio waiver requirements. Manually underwritten loan files and GUS files that receive a “Refer” or “Refer with Caution” underwriting recommendation will not qualify for ratio waiver consideration when the PITI ratio exceeds 32 percent or the TD ratio exceeds 44 percent. This AN does not apply to any GUS loan file that receives an “Accept” underwriting recommendation.

Questions concerning this AN should be addressed to:

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