



Committed to the future of rural communities.

Welcome To

“Get Familiar with USDA Guaranteed Loans”

GREC #63830

Georgia Real Estate Academy #6915

3 Hour CE Class

Introduction

Jay Alexander – Jay.Alexander@Homestarfc.com

Homestar Financial Corporation

Over 11 years in the mortgage business

GA Tech Grad – ChBE '05

Church Music Director

Coach Soccer



Committed to the future of rural communities.

Guaranteed Loan Program -Single Family Housing- Your 101% Finance Option



Committed to the future of rural communities.

and

HOMESTAR

Do not confuse with
USDA Direct Loan

Guidelines vs. Overlays

USDA Loans – The Beginning

- Designed to bridge the gap between government lending and private lending in rural areas.
- Allowed homebuyers to purchase a home in an eligible area
- Very low, low, and moderate income rural homebuyers
- Emerging market demographic homebuyers that may have limited traditional credit histories, but have nontraditional credit established

USDA Loans – Today

- 101% Loan option
- Home must be in an eligible area
- Income limits apply
- Must have acceptable depth of credit (traditional or non-traditional)
- “Conventional Loan with an FHA Appraisal”
- Cheap funding fees (PMI)
 - 1% Upfront
 - 0.35% Annually

Advantages



Committed to the future of rural communities.

- 100% LTV (Based on Appraised Value)
- 1% USDA Funding Fee (financed)
- Low Annual renewal fee of only .35%. (paid monthly). Much lower than FHA or Conv.
- No Loan Limits (The maximum loan amount is determined based upon borrowers income and re-occurring debts.)
- Allowable Repairs may be Financed up to \$10k (Appraisal must support)

Advantages

- Allowable Appliances may be Financed up to 100% of after improved Appraised Value.
- Closing Costs may be Financed up to 100% of after improved Appraised Value.
- Prepaid Expenses may be Financed up to 100% of after improved Appraised Value.
- No Minimum Cash Contribution required.
- Unlimited Gifts
- 6% Seller Contributions
- No Reserves Required for most applicants.
- Flexible Credit Guidelines

Biggest Advantage

USDA

VS.

FHA

USDA vs. FHA

	USDA	FHA
Purchase	\$ 100,000.00	\$ 100,000.00
Loan Amount	\$ 101,000.00	\$ 98,189.00
Down Payment	\$ 0.00	\$ 3,500.00
P & I	\$ 496.86	\$ 483.03
“PMI”	\$ 29.46	\$ 69.55
Total	\$ 526.32	\$ 552.57

USDA vs. FHA

USDA Down Payment is **\$ 3,500.00** less than FHA

and

USDA Payment is **\$26.25** less than the FHA Payment

2 Main Questions

- Does the borrower meet the income limits?
- Is the property located in a USDA eligible area?

Applicant Eligibility

- Meet Household income limits as determined by USDA
 - Household Income Limits Based on the “Annual Income”
 - Annual Income is defined as the current and projected **household** income expected over the next 12 months.
 - All income sources in household must be considered for occupants over 18 years of age and not full time students in the Household Income Calculation.
 - Household *adjusted* annual income may not exceed the **MODERATE INCOME** limit.
 - Household Income Limits are based on family size and county where the property is located

Income Limits

RD INSTRUCTION 1980-D, EXHIBIT C PAGE 37
GUARANTEED HOUSING PROGRAM INCOME LIMITS

STATE: GEORGIA --- ADJUSTED INCOME LIMITS ---

PROGRAM	1-4 PERSON	5-8 PERSON
Albany, GA MSA		
RHS VERY LOW INCOME	24550	32400
RHS LOW INCOME	39300	51900
RHS MOD. INC-GUAR. LOAN	74050	97750
Athens-Clarke County, GA MSA		
RHS VERY LOW INCOME	29300	38700
RHS LOW INCOME	46900	61900
RHS MOD. INC-GUAR. LOAN	74050	97750
Atlanta-Sandy Springs-Marietta, GA HUD Metro FMR Area		
RHS VERY LOW INCOME	35900	47400
RHS LOW INCOME	57450	75850
RHS MOD. INC-GUAR. LOAN	82600	109050
Butts County, GA HUD Metro FMR Area		
RHS VERY LOW INCOME	29300	38700
RHS LOW INCOME	46900	61900
RHS MOD. INC-GUAR. LOAN	74050	97750
Haralson County, GA HUD Metro FMR Area		
RHS VERY LOW INCOME	24200	31950

Done Unknown Zone | Protected Mode On

Desktop 12:22 PM 9/24/2011

Income Limits

In the Metro Atlanta Area:

<u>Households Members</u>	<u>Income Limit</u>
1 - 4	\$82,600
5 - 8	\$109,050
8+	increase per person

Income Limits

In Haralson County:

<u>Households Members</u>	<u>Income Limit</u>
1 - 4	\$78,200
5 - 8	\$103,200
8+	increase per person

Annual Income

Very Aggressive Calculation

Annual Income > Repayment Income

(Ex. Bonus, Overtime, Child Support, will
always be included)

Income Limits

- Income sources that must be considered include:
 - Standard income (wages, social security, child support, etc.)
 - Spousal income (unless living apart for 3 months)
 - Interest on any assets over \$5,000
 - ~~– Income from foster children~~

Income Limits

- Income sources that are not included:
 - Income above \$480/yr from full-time students (not spouse or head of house)
 - Government assistance (Sect. 8 vouchers, SNAP, etc.)
 - Income from foster children
 - Any allowance paid under 38 U.S.C. 1805 to a child suffering from spina bifida who is the child of a Vietnam veteran.
 - Payments by the Indian Claims Commission to the Confederated Tribes and Bands of Yakima Indian Nation or the Apache Tribe of Mescalero Reservation

Income Eligibility-Online

<http://www.isitrural.com>

-> “Single Family Housing Guaranteed”

-> “Income Eligibility”

Follow Prompts Until:

Income Eligibility-Online

<http://www.isitrural.com>

Gross Monthly Income			
	Applicant	Other Household Member	Other Household Member
Base Employment Income	<input type="text" value="0"/>	<input type="text" value="0"/>	<input type="text" value="0"/> ?
Overtime Income	<input type="text" value="0"/>	<input type="text" value="0"/>	<input type="text" value="0"/> ?
Bonus Income	<input type="text" value="0"/>	<input type="text" value="0"/>	<input type="text" value="0"/> ?
Commission Income	<input type="text" value="0"/>	<input type="text" value="0"/>	<input type="text" value="0"/> ?
Self-Employment Income	<input type="text" value="0"/>	<input type="text" value="0"/>	<input type="text" value="0"/> ?
Dividend/Interest Income	<input type="text" value="0"/>	<input type="text" value="0"/>	<input type="text" value="0"/> ?
Net Rental Income	<input type="text" value="0"/>	<input type="text" value="0"/>	<input type="text" value="0"/> ?
Other Income	<input type="text" value="0"/>	<input type="text" value="0"/>	<input type="text" value="0"/> ?
All Other Income Received by Adult Members of the Household :	<input type="text"/>		?

(See help for further explanation)

Income Eligibility-Online

<http://www.isitrural.com>

Single Family Housing Program ~ Income Eligibility Determination Summary

Applicant is **ELIGIBLE** for the Section 502 Guaranteed Rural Housing Loan Program and **INELIGIBLE** for the Section 502 Direct Rural Housing Loan Program based on income entered and Program Income Guidelines in effect as of 05-16-2018. (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 :	\$72,000.00
Total Deductions :	\$.00
Household Adjusted Annual Income :	\$72,000.00

Section 502 Guaranteed Rural Housing Loan Program

Maximum Adjusted Household Income for Selected State and County :	\$82,600.00
---	-------------

Section 502 Direct Rural Housing Loan Program

Maximum Adjusted Household Income for Selected State and County :	\$57,450.00
Adjusted Household Income Exceeds Maximum Income by :	\$14,550.00

Question 2

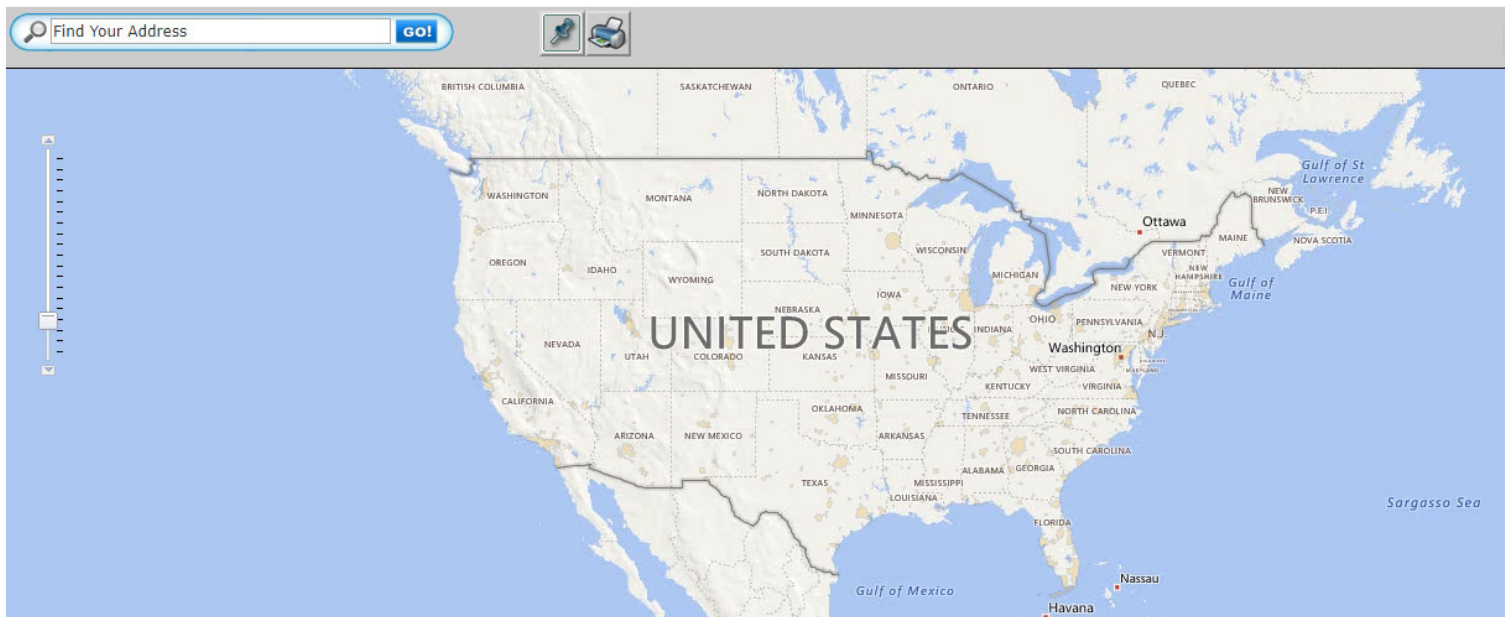
- Is the property located in a USDA eligible location?
- or
- Where do I shop for homes?

Determine Property Eligibility- ONLINE!

www.isitrural.com

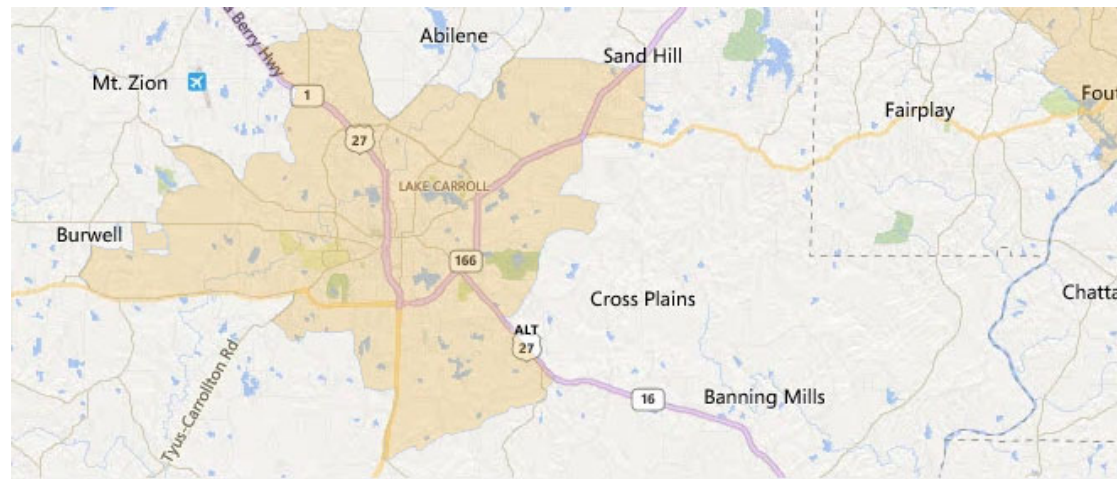
- -> “Single Family Housing Guaranteed”
- -> “Property Eligibility”
- Click Accept:

USDA Map



Type address or zoom in on area of interest

Orange is Bad



Underwriting Standards

- Automated vs. Manual
- USDA uses “GUS” – Guaranteed Underwriting System.
- Manual Loans can happen, but layers of risk make it very difficult
 - Choose one: Credit or Ratio Waiver

Underwriting – General

- Have the ability to personally occupy the dwelling
- Be a citizen of the United States, be admitted for permanent residency or be employment authorized and admitted under political asylum
- Non-occupant co-borrowers are not permitted
- Can not own “adequate” housing
- Have adequate and dependable income typically with a history of 24 months

Underwriting – General

- Warning: “The Conventional Loan Trap”
- Remember, USDA was originally designed to bridge the gap between the Bank and Private Financing in Rural Areas
- If the customer qualifies for Conventional Financing, they are not eligible for USDA
 - Requires 20% down, plus closing costs
 - DTI below 28/36

Underwriting Standards

Income

- “Repayment Income” vs. “Annual Income”
- 29/41 Ratios
 - Anything above these numbers requires a “ratio waiver”
- GUS (Guaranteed Underwriting System) can issue a ratio waiver with an “Accept” finding
- Manually underwritten loans cap out at 32/44 ratios with compensating factors

Underwriting Standards

Income

- Standard Income
 - 2 Yr Job History
 - 2 Yr receipt of bonus, overtime, commissions, etc.
 - Child Support requires 12 months proof of receipt

Underwriting Standards

Income

- Compensating Factors
 - Credit score of 680 or better
 - Minimal increase in housing expenses
 - 3 months reserves after loan closing
 - Continuous (2 year+) employment with current, primary employer
- Manual Loans
 - Ratio waiver requires 680 or better score plus one additional factor

Underwriting Standards

Assets/Reserves

- Reserves are calculated based on the recent 2 month AVERAGE balance
- Gift funds do not count
- Overdrafts/NSF => \$0 in reserves
- Could have huge effects with GUS findings

Underwriting Standards

Credit

- USDA does not have a minimum credit score, however applicants with credit scores below 580 are typically not eligible. Most Lenders have implemented a minimum credit score
- USDA defines Valid Credit Score as “at least one applicant must have 2 tradelines that have existed for 12 months”
- Lack of a valid credit score requires an automatic downgrade to “refer”

Underwriting Standards

Credit

- A valid 640 score meets the “minimum credit required” provided:
 - All foreclosures and BKs are at least 3 years old
 - No late mortgage payments within 12 months

Underwriting Standards

Credit

- Credit exceptions/waivers are possible
 - Document the circumstances around bad credit were temporary, beyond the borrower's control, and
 - Circumstances have been removed and resolved for at least 12 months
 - Exceptions can also be made if the customer's housing is decreasing 50% or more

Underwriting Standards

Credit

- All federal judgments must be paid
- Non-federal judgments can a payment plan (min. 3 months)
- Capacity analysis is required for collection accounts
 - If total collections are greater than \$2,000, then 5% of the outstanding balance must be counted in the DTI
 - Charge-offs and medical collections do not count is the \$2,000 aggregate

Underwriting Standards

Credit

- Students must be counted in the DTI
 - Must 1% of outstanding balance unless the payment is a verified, fixed payment that will not increase
 - IBR, graduated, adjustable, interest only, deferred loans etc. are all subject to change

- Flexible credit guidelines for Major Derogatory Credit.
 - Foreclosure and Chapter 7 BK – 3 Years (1 year with Extenuating Circumstances)
 - In most cases applicants with Foreclosures occurring in the past 36 months are not eligible.
 - Applicants with a Short Sale may be eligible, depending upon the pay history of the mortgage, applicants credit score and/or circumstances of the short sale.
 - Judgments and Liens Must be paid off (Exception: Tax Liens)

USDA Property and Related Topics

Property Standards

- Home must be “Adequate” (Remember, borrower can’t own adequate housing)
- We see lots of unique property situations in rural areas
- USDA tries to accommodate as best as possible
- Only want to lend on a residence

Adequate Housing Defined

- Structurally sound
- Functionally adequate.
- Dwellings financed must provide decent, safe, and sanitary housing.
- Must Meet HUD's MPR

Adequate Housing Defined

- First-time Homebuyer?
 - Cannot own “adequate housing”
 - Poor Condition, Long Commute, Lack of Size can deem a house inadequate
 - Manufactured Homes are inadequate
 - Spousal housing can count as adequate
 - The idea is to keep funds available
 - Ignorance is Bliss

Manufactured/Modular

- Manufactured Homes
 - Manufactured Homes cannot go USDA
 - FHA, VA, and Conventional options exist
- Modular Housing
 - Modular Homes are eligible.

Condos

- Condominiums are acceptable to Rural Development when the project has been approved by Fannie Mae (FNMA), Freddie Mac (FHLMC), HUD, or VA.
- Everyone see lots of Rural Condos these days?

Log Home Properties

- Log Homes may be acceptable
 - Must meet HUD Minimum Property Standards
 - Acceptable Log Home Comparable Sales must be available to support the requested loan amount.

Heating Sources

- All habitable rooms must have a heat source or receive sufficient heat.
- Thermostatically controlled baseboard unit permanently installed with concealed wiring.
- Wood stove and solar not allowed as sole source of heat
- Wall heaters installed to code
- Floor heaters that meet current code
- Propane fired furnaces located in a crawl space are not acceptable
- All acceptable heat sources must be in working order and meet HUD min property requirements.

Private Road Agreements and Shared Driveway

- Each property shall be provided with vehicular or pedestrian access by a public or private street.
- If the property is not provided with an all-weather surface, note the absence of such in the appraisal. HUD defines all-weather surface as a road surface over which emergency and the area's typical passenger vehicles can pass at all times.
- Private streets and shared driveways must be protected by permanent recorded easements or be owned and maintained by a Home Owners Association (HOA).
- The recorded easement must be reviewed and approved by the Underwriter .
- Evidence of a road maintenance agreement is not required.

In Ground Pools

- Allowed for USDA properties
- Not given any value
 - Appraised Value on Report = \$150,000
 - Pool = \$4,000
 - Appraised Value = \$146,000

Other Structures

- There are acceptable and unacceptable structures which may be located on the subject property
- “A qualified property must be predominately residential in use, character and appearance.”
 - No Income producing Structures
 - No Farm Service buildings
 - No Revenue Producing Land
 - No Horse Riding Arenas

Land to Value

No Maximum Acreage

The land value/site value must be typical for the area and cannot contain income producing structures.

Must have Comps for the appraisal

Economic life of the property must exceed the loan term

Allowable Repairs and Escrows

- Work must be required to meet MPR
- Work cannot affect habitability, health or safety
- Cost is not greater than 10% of final loan amount or \$10k
- Must have contractor agreement/contract

Allowable Repairs and Escrows (continued)

- Kitchen Appliances (Refrigerator, Range, and Dishwasher)
- Non-Structural repairs required by the appraiser.
- In some cases certain items not required by the appraiser are allowed to be escrowed.
- HUD is looking for issues that cause safety, soundness, and security issues.

Allowable Repairs and Escrows (continued)

Example of items that require repair according to HUD:

- Inadequate access / egress from the bedroom to the exterior of the home;
- Leaking and worn out roofs;
- Evidence of structural problems;
- Defective paint and sheetrock on the interior and or exterior of a house built pre 1978 (lead paint issue);
- Defective paint on the exterior of house post 1978 where the finish is unprotected;
- And mechanical issues (electrical, plumbing), that effect security, safety and or soundness of the property.

Allowable Repairs and Escrows (continued)

Examples of items that don't require a repair according to HUD:

- Missing handrails;
- Cracked or damaged doors;
- Cracked window glass;
- Defective interior paint surfaces;
- Minor plumbing leaks;
- Defective floor finish (badly soiled carpeting);
- Evidence of previous wood destroying insects;
- Damaged sheetrock or other wall materials;
- Poor workmanship;
- Trip hazards.
 - Note: Some items listed may be considered a safety hazard by either the appraiser or underwriter and therefore may be required to be corrected.

Mold

- USDA does not have specific guidelines issued related to mold, however mold remediation is typically required prior to closing.
 - Most lenders will have specific guidelines regarding mold remediation.
 - Mold Remediation is typically not allowed as an Escrow Repair item.

USDA Property (part 2)

Potable Water Test Requirement (Well Test)

Public, Community, and Individual Water Systems and Shared Wells

- Water and water/waste disposal systems serving the site must be approved by a state or local government agency.
- When the site is served by a privately owned and centrally operated water and water/waste disposal system, the system must meet the design requirements of the State Department of Health or comparable reviewing and regulatory agency.
 - Written verification must be obtained from the regulatory agency that the private water and water/waste system complies with the Safe Drinking Water Act (42 U.S.C. §300F et. seq.) and the Clean Water Act (33 U.S.C. §1251 et. seq.), respectively.
- A system owned and/or operated by a private party must have a legally binding agreement which allows interested third parties, such as the Lender, to enforce the obligation of the operator to provide satisfactory service at reasonable rates.

maintained by the City, County, or other governmental entities are considered acceptable

Potable Water Test Requirement (Well Test)

- State approved central community water systems maintained by a private corporation or a non-profit property owners association are acceptable.
- Individual water supply systems (i.e. wells) with appropriate Health Authority approval
 - Individual systems require a clear “Well Test”
- HUD minimum acceptable distance between

Effective Age vs.

- When there is a substantial difference between actual age and effective age of a dwelling, the lender must ensure the appraisal contains supporting documentation:
- Recent repairs/renovations must have been completed. Documentation supporting the recent renovations and/or repairs with the dates of completion to major components and cosmetic items may be requested if not addressed in the appraisal

- **Major Components consist of:** Roof, wiring, plumbing, HVAC, windows, siding, etc
- **Cosmetic Items consist of:** painting, flooring, plumbing and light fixtures, interior walls and doors, cabinets, appliances, etc.

Required Documentation New Construction

- Certificate of Occupancy
- Well/septic certification (if applicable)
- Termite Certification
- Minimum 1-year Builder's Warranty

Getting to the Closing Table

The USDA Process...

Lender -> USDA -> Lender -> Closing
(We can look up USDA turn time)

Do they run out of funds?

USDA Contract Exhibit

Questions?

