

USDA Guideline Updates Effective for Commitments Issued on and After 03/09!

Following is a summary of a number of revisions noted in [HB-1-3555 Revisions](#) that will be effective for commitments issued by USDA on and after March 9th, 2016. We will continue to provide you with additional revisions as we sort through the updates and work to update our USDA product matrices and guidelines.

Chapter 5

Using AUS-GUS

New requirement: Liabilities marked “Omit” on the “Asset and Liabilities” GUS application page, must have the “Notes” data field completed with an explanation to support the exclusion of the debt.

Current requirement: Not required. Functionality in GUS now explained and is required to be used

Chapter 6

Discount points:

- **New requirement:** Discount points may be financed for all applicants both low and **moderate** income.
- **Current requirement:** Discount points can only be financed for low income borrowers.

Chapter 8

Owning a Dwelling:

Criteria for acceptability of retention of ownership of the current home allowing eligibility for a guaranteed loan to purchase another home, examples of clarification:

- One of the requirements states that the current home owned no longer adequately meets the applicant’s need.
- **Clarification:** Manufactured housing units that are not fixed on a permanent foundation are considered functionally inadequate and will not render an applicant ineligible if they retain this unit. All costs, however, associated with this unit must be included in the total debt ratio.
- Regarding retention of owned dwelling is additional language to define “room” for determination of overcrowding. (1.5 household residents per room)
- **Clarification:** The room count generally includes a living room, dining room, kitchen, den. Recreation room, and bedroom(s). Room counts do not include the bathroom or an entry hall/foyer.

- Relocation with a new employer or being transferred by the current employer to an area not within reasonable and locally recognized commuting distance
Clarification: Relocation maybe pending or already occurred.

Chapter 9

Qualifying-Annual Income

- **New requirement:** Lump sum payments or deferred payments from Social Security benefits are exclude from annual income
- Current Requirement: Not addressed

New “Special-Purpose Payments” section added to provide guidance for multiple income types never to be counted

Special-Purpose Payments defined as those payments made to the applicant’s household that would be discounted if not spent for a specific purpose. Payments which are intended to defray specific expenses of an unusual nature and which are expended solely for those expenses: Examples only and limited to:

- Medical expenses with funds provided
By a charitable organization to defray medical expenses, to the extent to which they are actually spent to meet those expenses
- Foster Care Payments moved to this new section;

Foster Income

New requirement: Never used for annual or repayment – moved to new “Special Purpose Payments”

Current requirement: Allowed for repayment income if the payment was for the care of foster children or adults related to the applicant’s household by blood, marriage or operation of law.

Qualifying Annual Income:

Guidance for separated spousal income

- **New requirement:** Income of an applicant’s spouse, unless the spouse has been living apart from the applicant for at least 3 months(other than military or work assignment) or court proceedings for a divorce or legal separation have been commenced will be included in the calculation of annual income.
- **Current requirement:** Not formally addressed

Projecting Annual Income for a 12 month period

- **New requirement:** Documented income increases for an adult household member that will occur on or before loan closing must Be included in the annual income calculation
- **Current requirement:** Not specifically detailed

Chapter 10

Acceptable Credit Scores for Manually Underwritten Loans

New requirement A credit exception with supportive documentation confirming the circumstances leading to derogatory credit that attributed to the low credit score is required for all loans receiving a credit score of 639 or below. FIMC minimum FICO 620. Underwriter to review for exception

Current requirement: Not specifically addressed

Authorized User Tradelines:

New clarification: An authorized user account that is classified as “terminated” on the credit report is equal to a closed trade line. All other guidance remains the same.

Current requirement: Not addressed

Chapter 13 BK Plan in Progress and Completed:

Clarification: Chapter 13 BK in Progress:

A Chapter 13 BK Plan in progress does not disqualify an applicant from obtaining a loan, provided the following applicable to all underwriting methods can be met:

- The lender documents 12 months of the debt restructuring plan has elapsed; and
- The applicant’s payment performance has been satisfactory; and
- All required payments were made on time; and
- The applicant must receive written permission from the bankruptcy court/trustee to enter into a mortgage transaction.

AUS-GUS “Accept” When a plan is in progress a credit exception is not required. Include payment(s) on the “Asset and Liabilities” page of GUS

Manually underwritten loans. In addition to the criteria set forth for a plan in progress, a credit exception in by the lender will be required. Include the payment in the debt ratios of the applicant(s).

Clarification: Chapter 13 BK Plan Completed:

AUS- GUS “Accept” The discharge date of the completed plan has been considered by the scorecard and is reflected in the overall credit score. No additional documentation is required,

New requirement:

Manually underwritten loans: A completed Chapter 13 BK plan will not require a credit exception provided the applicants have demonstrated a willingness to meet obligations when due for the full 12 months prior to the date of loan application

Current requirement: Not addressed prior

Charge offs:

- **New requirement:** Charge offs are now addressed with guidance for both GUS Accept and Manually underwritten loans. Charges offs are not required to be

included in the debt ratio. If, however, the applicant has entered into an agreed upon repayment plan, with the creditor, the liability will be included in the long term debt.

- **Current requirement:** Charge offs were not addressed in guidelines.

Delinquent Federal Tax Debt:

New requirement: Delinquent federal tax debts will render the loan ineligible unless there is a valid repayment agreement with three months of timely payments. Scheduled payments cannot be prepaid to meet the required three month minimum. Payments will be included in the debt to income ratio. IRS evidence of the repayment agreement and verification of payments made must be included in the documentation.

Current requirement Not formally addressed

Minimum Tradeline Requirements:

- **New requirement:** Credit Score validation requires 2 historical tradelines. *(Note- this change has already been announced previously)*

Current requirement: Credit Score validation requires 3 historical tradelines

Minimum Tradeline Requirements:

- **New requirement:** Credit Score validation requires 2 historical tradelines. *(Note- this change has already been announced previously)*
- **Current requirement:** Credit Score validation requires 3 historical tradelines.

NEW TRADELINE REQUIREMENTS

Although USDA announced the new credit score validation requirement for 2 historical tradelines previous to this revision there have been updates to what is now considered a valid trade line.

Collection accounts may now be included but a disputed credit line is no longer allowed. If less than two eligible tradelines are documented on the credit report additional tradelines may be verified to meet the cumulative total of two (or three if rent is not applicable)

If a credit score is generated with only one tradeline, the score in those cases will not be allowed to be used. A score based on fewer than two tradelines will not be allowed. If the credit report cannot establish the required number of eligible tradelines to validate the credit score, a minimum payment history can be established through the use of a non- traditional credit report. A combination of eligible tradelines reported on the credit report and eligible non - traditional tradelines may represent the minimal number of tradelines necessary to validate the credit score. If less than two eligible tradelines are documented on the credit report, additional non-traditional tradelines may be verified to

meet the cumulative total of two (or three if rent is not applicable) Non-traditional credit may not be used to enhance poor payment records or low credit scores.

Loans that receive an "Accept" recommendation are subject to the credit score validation. GUS applications receiving an "Accept" underwriting recommendation that fail to meet the credit score validation test using a traditional credit report must be downgraded to a "Refer" by the lender. In these instances, the use of a non-traditional history will be required. A Manual downgrade is required if at least one applicant cannot meet the requirements

FIMC requires all borrowers to have a FICO score

Chapter 11

30 Day Accounts:

- **New requirement:** A 30 day account is a credit arrangement requiring the applicant to pay off the outstanding balance on the account every month. Lender must verify the outstanding balance paid in full on every 3- day account each month for the past 12 months. 30 day accounts paid monthly in full are not included in the long term debt ratio. If the credit report indicates any late payments in the last 12 months, a long term payment will be included. 5% of the outstanding balance will be used as the monthly debt. The credit report will be used to document payments for the previous 12 months
- **Current requirement:** Not addressed

DTI Ratios:

- **New requirement:** The requirement to recalculate a credit card payment if additional fees are incurred during the application process is removed.
- **Current requirement:** Recalculation of credit card payment is required if additional fees are incurred during the application process

Judgment Account Payments

- **New requirement:** Judgment accounts with a repayment plan already established with a consistent payment history, are included as a long term obligation unless less than 10 months of repayment plan remains and the underwriter determines the debt does not have significant impact on the repayment of the applicant. A letter from the creditor or evidence from the credit report is required to validate the payment arrangements and payment history. All other prior judgment requirement remain.
- **Current requirement:** Length of payment not addressed

Short Term Obligations-Significant Impact

- **New requirement:** Short term obligations that are considered to have significant impact on repayment ability such as large medical bills and car or other credit

payments. A significant impact on repayment is defined as 5% or greater the gross monthly income of the applicant(s). Installment debt can be paid down prior to underwriting to a repayment balance less than 10 months; however, underwriters can include any debt that in their underwriting analysis is considered a significant impact to the applicant's ability to repay the debt.

- **Current requirement:** Significant debt definition currently not addressed

Student Loans:

- **Clarification:** Lenders must include the **greater** of
 - 1% of the outstanding loan balance or
 - The payment as reflected on the credit report

Income Based Repayment (IBR) graduated, adjustable rate, deferred, etc are not fixed payments and one percent of the loan balance is required for the total debt ratio.

- **Current requirement:** Additional documentation was required.

Chapter 12

Appraisals:

- **New requirement:** Photos must include bedrooms, street views showing neighboring improvements, any other rooms photos representing overall conditions, recent updates (such as renovation, remodeling or restoration), basement, and for condos, additional photos of common areas and shared amenities
- **Current requirement:** Photos of the exterior, all four sides, the kitchen, living room, dining room, attic, crawl space and bathrooms, plus improvements and street view showing address.

Environmental Requirements:

Hazard: Flood:

New requirement: Existing dwellings and newly constructed dwellings located within the SFHA not served by public sewer systems and have on-site septic or sewage treatment systems must have a drinking water supply which is protected from cross contamination from the onsite septic/sewage treatment during flooding. A property service by an on-site septic or sewage treatment system is eligible, provided one of the following can be met:

- The property is served by a publically provided water supply.
- The property is serviced by a private drinking water well/supply with a fitted sanitary well cap which prevents backflow floodwater from entering the drinking supply well.
- The property is served by a private drinking water well/supply whose opening is located above the base flood elevation of the SFHA. Additional documentation, such as an elevation certificate, will be required to verify this type of property.

Current requirement: Not addressed

Escrow

Clarification: Remaining escrow funds that are loan funds or seller concessions(as stated in the purchase agreement) must be applied to the principal balance of the loan.

New requirement: Remaining escrow fund that are personal funds(obtained directly from the applicant's personal account or the seller's personal account(may be returned to the applicant and/or seller.

Current requirement: Not completely addressed

Property Flipping:

New requirement: It remains the lender's responsibility to ensure any recently sold property's value is strongly supported when a significant increase between sales occur. The lender must perform a thorough review of the appraisal report to validate and support the property's value and protect the applicants from possible predatory real estate lending.

Current requirement: Not formally addressed

Chapter 15

Agency Review of Lender's Underwriting Decisions

New requirement: Lenders will receive official notification by the Agency when any delay beyond 4 business days for turn around in response to a commitment request

Current requirement: Not addressed