

	<p>GUS Accept files with less than \$2,000 in disputed derogatory accounts will require the lender to determine if the disputed account may impact the applicant’s ability to repair the proposed mortgage obligation. Each account (excluding those listed above) must include a minimum monthly payment of</p> <ol style="list-style-type: none"> 1) The payment state on the credit report, or 2) 5% of the balance of the account, or 3) A lesser amount documented from the creditor. <p>A GUS Accept must be downgraded to a Refer when the applicant has \$2,000 or more collectively in disputed derogatory accounts in the last 24 months.</p> <p><u>Refer/Manual Loans</u> The lender must analyze the potential impact to the applicant’s ability to repay the proposed mortgage debt with disputed derogatory accounts. Each account (excluding those listed above) must include a minimum monthly payment of</p> <ol style="list-style-type: none"> 1) The payment state on the credit report, or 2) 5% of the balance of the account, or 3) A lesser amount documented from the creditor. <p><u>Recent or undisclosed debts/inquiries/information</u> If the lender is aware of any contradictory or derogatory information that is not submitted to GUS, or erroneous information in the data submitted to GUS, or there is a Federal Judgment, a recommendation of “Accept” must be downgraded to a manual “refer”.</p>
<p>Credit Score</p>	<p>Purchase 600</p> <p>Refinance 600</p> <p>Borrowers must have a minimum of 1 score</p> <p>Ineligible Credit Scores Below 600 No Score Applicants</p>
<p>Debt</p>	<p>Total Debt includes monthly housing expense PITI plus any other monthly credit obligations incurred by the applicant. Obligations for childcare, voluntary contributions to retirement such as a 401K, and open accounts with zero balance, are not considered a debt.</p> <p>Monthly debt obligations include but are not limited to:</p> <p>Installment accounts</p> <ul style="list-style-type: none"> • Accounts that will be paid in full through a specified number of fixed payments such as auto, personal, secured/unsecured, etc. must have the monthly payment included. • Installment debt may be paid down to ten months or less of remaining debt.

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- If ten or less months of repayment remains per the credit report, creditor verification, etc., the monthly debt may be excluded if the payment does not exceed five percent of the monthly repayment income.

Revolving accounts – The minimum monthly payment is required for all revolving credit card debts, even if the account appears likely to be paid off within 10 months or less.

- If the credit report shows an outstanding balance, but no specific minimum monthly payment, the payment will be calculated as the greater of 5% (percent) of the balance as reported on the credit report. If the lender obtains a copy of the current statement reflecting the actual monthly payment, that amount can be used for qualifying purposes.
- Revolving accounts with no outstanding balance do not require an estimated payment to be included in DTI

30-Day Accounts

- A 30-day account is a credit arrangement requiring the applicant to pay off the full outstanding balance on the account every month.
- The lender may utilize the credit report to document the applicant has paid the outstanding balance for the previous 12 months.
- 30-day accounts that are paid monthly in full are not included in the total debt ratio.
- If the credit report reflects late payments in the last 12 months, the lender must include five percent of the outstanding balance in the monthly debts.

Child support, alimony, garnishments

- Court ordered debts must have the payment included in the total debt ratio unless the applicant has a release of liability from the court/creditor and acceptable evidence is documented.
- Lenders will utilize select pages from the applicable agreement/court order to document the required monthly payment due and the duration of the debt.
- Court ordered debts with ten or less payments remaining may be excluded if the payment does not exceed five percent of the monthly repayment income.
- For GUS transactions, the lender will manually enter the obligation(s) as a monthly liability. A manual entry of this monthly obligation does not require an underwriting recommendation of “Accept” to be downgraded to a “Refer.”
- Lenders must confirm repayment agreements are current. Refer to Chapter 10 for court ordered debt guidance and program eligibility.

Applicants delinquent on court ordered child support are ineligible for USDA financing unless the applicant has an approved repayment agreement in place with three timely payments made prior to loan closing, the arrearage is paid in full prior to loan closing or a release of liability is documented.

Childcare expense – Childcare expenses are not required to be considered as a recurring liability when calculating the DTI

Student Loans – please see Student Loan section

Co-signed non-mortgage debt/obligations

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- Co-signed debts refer to a debt where the applicant may be a co-borrower, joint obligor, co-signer, guarantor, etc.
- Co-signed debts must be included in the monthly debts unless the applicant provides evidence another obligor (party to the debt) has successfully made the payment for the previous 12 months prior to loan application.
- Acceptable evidence includes but not is limited to: canceled checks, money order receipts and/or bank statements of the co-obligor.
- Late payments reported in the previous 12 months prior to application will require the monthly liability to be included in the monthly debts.
- If the applicant can provide conclusive evidence from the creditor that they will not pursue debt collection against the applicant should the other party default, the 12-month payment history of the additional party is not required.
- Debts identified as “individual” on a credit report must be included in the debt ratio regardless of who is making the monthly payment (e.g. parents paying car payments on behalf of applicant and the loan is solely in the applicant’s name).

Business Debts

- Business debts (e.g. car loan) reported on the applicant’s personal credit report may be excluded from the monthly debt if there is evidence the debt is paid through a business account.
- Acceptable evidence includes canceled checks or bank statements from a business account for the previous 12 months.

401K Loans/personal asset loans

Loans pledging personal assets, such as a 401K account, retirement funds, savings account or other liquid assets are not considered in the total debt ratio.

Debts of a non-purchasing spouse (NPS)

For applicants that reside or are purchasing in a community property state, the debts of the NPS must be included in the applicant’s total debt ratio unless specifically excluded by state law.

Rental Property

- A retained dwelling that has been rented for 24 months or longer prior to loan application may have the mortgage obligation omitted when the applicant provides documentation to support the lease history.
- If the rent received does not cover all expenses (principal, interest, real estate taxes, hazard insurance, HOA fees, assessments, etc.), the remaining balance must be included in the monthly debts
- The manual entry of a rental income loss to the monthly debts in GUS will not require an Accept loan file to be downgraded to a Refer. HB-1-3555 (03-09-16) SPECIAL PN 11-5 Revised (04-30-20) PN 536
- If the credit report reflects late mortgage payments on the rental dwelling in the 12 months prior to loan application, the full mortgage liability and all associated costs must be included in the monthly debts.
- Refer to Chapter 9 of the handbook for rental income guidance.

Mortgages: No Release of Liability (includes contract for deed situations)

- Mortgage liabilities disposed of through a sale, trade or transfer without a release of liability (i.e., borrower remains on the promissory note) must be included in the total

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debt ratio unless evidence can be obtained to confirm the remaining party/new owner has successfully made the payment for the previous 12 months prior to loan application.

- Evidence may be reported through the credit report or verification from the creditor/servicer to document the payment history has been current for the 12 months prior to loan application.
- If there are late payments in the previous 12 months prior to loan application, the full mortgage obligation must be included in the monthly debt.

Mortgages: Divorce

- In the case of a divorce, the lender must obtain a copy of the legal separation agreement or divorce decree to document the remaining party/new owner responsible to pay all mortgage debts from the effective date of the decree forward.
- To exclude the mortgage debt, the lender must document the previous 12 months have been paid as agreed prior to loan application through the credit report or verification from the creditor/servicer.
- If there are late payments in the previous 12 months prior to loan application, the full mortgage obligation must be included in the monthly debts.

Collection Accounts

All open collections must be listed in the Liability section of the 1003.

Collection Accounts – Non Medical

The Underwriter must review all collection accounts and determine if the applicant(s) is an acceptable credit risk, regardless of GUS recommendations. USDA does not require medical collections to be paid.

If the cumulative total of all non-medical collections exceeds \$2,000, the following options will apply:

- 4) Require payment in full of these accounts prior to loan closing
- 5) Use an existing repayment agreement or require payment arrangements be made with documentation from the creditor and include the monthly payment; or
- 6) Include 5% of the outstanding balance as the monthly liability amount, no further documentation will be required

GUS Data Entry for Collections

- Collections that will be paid by loan closing should select “Pay by Close” checkbox.
- If the collection is not required to be paid in full, the lender should select Omit checkbox. The “Notes” section must be completed to state why the debt will be omitted from ratio consideration
- If a repayment agreement has a specified monthly payment, include that amount. Do not enter “\$1.00” in the monthly payment field unless this is a documented repayment amount.

Judgments

Court-ordered judgments MUST be paid off before the mortgage loan is eligible for a guarantee unless the applicant provides documentation indicating that regular payments have been made on time in accordance to a documented agreement with a creditor.

The presence of court-ordered judgments must be considered in the credit analysis.

Unpaid judgments may represent an applicant's disregard for credit obligations. Lenders must document reasons for approving a mortgage when the applicant has judgments. Usually judgments are paid in full prior to loan eligibility. An exception to payment in full of outstanding judgments can be made when the applicant(s) have a payment arrangement with the creditor and have made regular and timely payments for the three months prior to loan application. Prepaying scheduled payments as a means of meeting minimum requirements is unacceptable. Lenders will obtain a copy of the payment agreement and validate payments have been made in accordance with the payment agreement. The payment agreement will be included in the debt-to-income ratio.

Federal Taxes

Federal taxes are due each year on the date determined by the IRS. Tax payers who owe taxes and do not pay in full by the filing date are determined delinquent by the IRS.

Repayment Plans:

An applicant with delinquent Federal tax debt is ineligible unless they have a repayment plan approved by the IRS. A minimum of three timely payments must have been made. Timely is defined as payments that coincide with the approved IRS repayment agreement. The applicant may not prepay a lump sum at one time to equal three monthly payments to meet this requirement. The lender must retain evidence of the repayment agreement and payment history in their permanent file. No credit exception is required.

Approved Extension:

An IRS approved extension to file a tax return does not grant the applicant additional time to pay their taxes due. Applicants must pay their estimated income tax due by the IRS filing date or they are determined delinquent by the IRS. An applicant that has owed taxes on previous filed return(s) exhibits a pattern of taxes due, therefore an estimated tax payment must be made to the IRS by the specified deadline. The applicant may file their return at a later date and remain eligible for a guaranteed loan. An applicant that has received tax refunds for previous filed return(s) may remain eligible with no estimated tax payment due to the IRS because they would not be determined delinquent. The applicant will remain eligible for a guaranteed loan.

Failure to File:

Applicant's that are required to file taxes but have failed to do so for the current or previous years by required IRS due dates without approved extensions and/or required tax payments as determined by the IRS are ineligible.

Self-Employed

Negative income (loss) for a business will be deducted from repayment income prior to calculating the total debt ratio.

Rental Loss

Negative net rental income will be treated as a recurring liability and included in the total debt ratio.

Short-term Obligations

That are considered to have a significant impact on repayment, such as large medical bills, car payments or other credit payments must be included in total debt ratios. This is regardless of how many payments are left on the debt. This will be considered underwriter discretion.

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	<p>Balloon/deferred payments</p> <ul style="list-style-type: none"> • Deferred debts and balloon debts that will require payment in full upon their due date must have a payment included in the monthly debts. • If the actual payment on a deferred/balloon loan is unknown, the lender may obtain documentation from the creditor to establish a monthly payment that will be due on a documented payment date or they must use five percent of the outstanding balance on the credit report or creditor verification. <p>Debt Ratio Waivers GUS underwritten loans receiving an “Accept” will not be required to document the need</p>
<p>Disaster Policy</p>	<p>FSB will require a post-disaster inspection when the appraisal occurred before the incident end date of a declared disaster.</p>
<p>Discount Points</p>	<p>Loan Discount points cannot be financed as part of the loan, except:</p> <ul style="list-style-type: none"> • Low-income applicants may finance discount points if they are reasonable and customary for the area and cannot be more than those charged other applicants for comparable transactions • Discount points cannot exceed two points of loan amount • Discount points and origination fees must be itemized separately on the settlement statement/Closing Disclosure
<p>Documentation</p>	<p>FSB will prepare all USDA files for the possibility of a GUS Refer. Our protocol is to keep the file moving with the intent to send the file to USDA at the first available opportunity. Many times, our Underwriting Team will be ready to send the file to USDA for the Conditional Commitment and the findings change on them from an Approve to a Refer. This then requires additional information and the file is delayed by several more days from being sent to USDA. If we prepare all USDA files to manual underwriting, then we do not have any setbacks when it is time to send the file to USDA. In addition, if the reviewer determines they want any further documents for their approval, we will have them on hand.</p> <p>FSB will ALWAYS require the following documentation, regardless of the findings:</p> <ul style="list-style-type: none"> • VOE on all working household members – regardless of who is on the loan or not • If a household member does not work, we will need an LOX signed by that person stating they do not work and the circumstances for this situation • On a non-borrowing household member (Adult), we will require paystubs, W-2’s and tax transcripts in the same manner as provided for the applicant on the loan. • VOR is always needed <i>on borrowers with credit scores below 680</i>, if the 1003 shows a rental history • If rental history is not available, we will require a rent-free letter from the person(s) they are living with for borrowers with credit scores below 680 • Each USDA office and each individual reviewer for the USDA loans reserves the right to requests additional information and documentation. By having this information on hand, we are not only ensuring the program guidelines are met, but we can provide USDA this same information to insure there are no delays. <p><u>CAIVRS – Credit Alert Verification Reporting system</u></p>

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