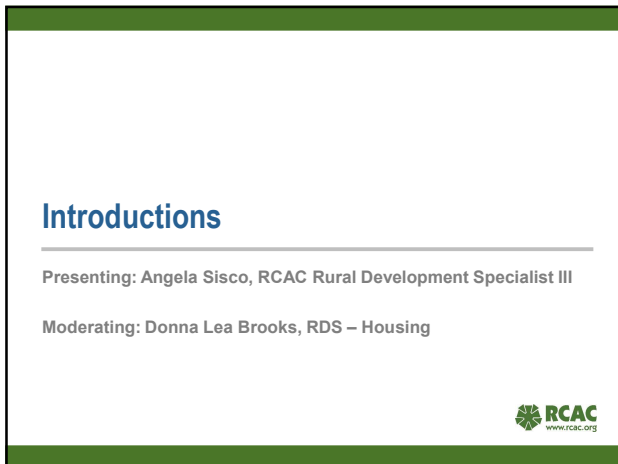
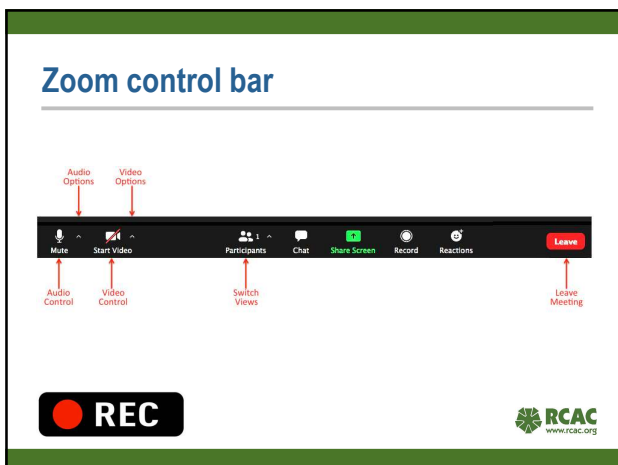




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3

Webinar Etiquette

- ✓ Be present and engaged
- ✓ Use chat for questions
- ✓ Have fun learning and sharing!



4

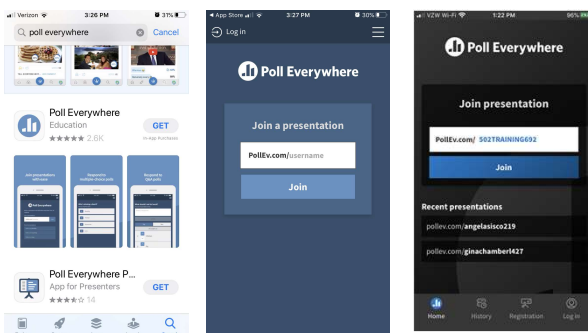
Handouts



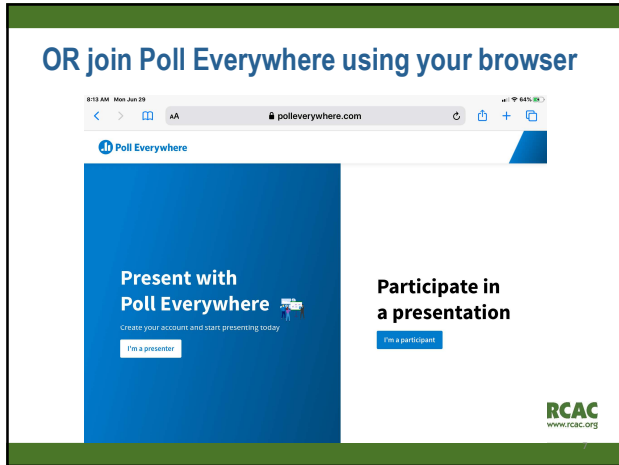


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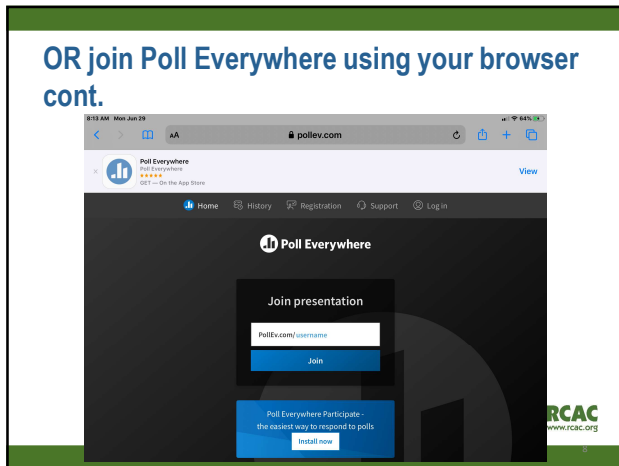
Join Poll Everywhere using the App



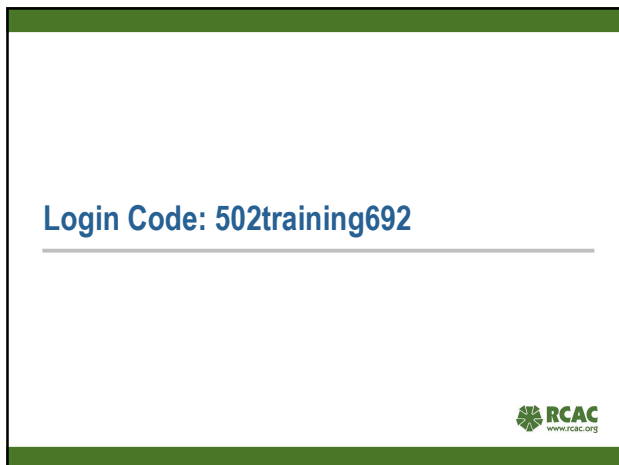
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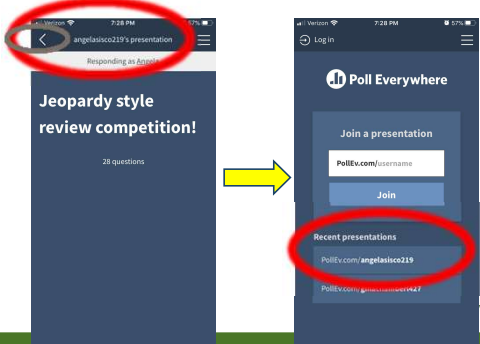

Poll Everywhere test question

Let's try this out!



10

A little Poll Everywhere instruction if your screen locks up

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REPAYMENT ABILITY




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Income Ratio Limits

PITI or "Front End"

**Principal + Interest + Taxes +
Insurance =
PITI**

Very low income household: 33%

Low income household: 33%

of monthly REPAYMENT income

*** Final Rule – both Very Low and Low
Income are 33%**



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Income Ratio Limits

Total Debt or "Back End"

**PITI + long term obligations, significant
short term obligations and deferred debts
=**

Total Debt (TD)

Regardless of income category: 41%

of monthly REPAYMENT income



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Establishing Total Debt

Revolving Credit Card Debt

**What payment is used based on information from
the credit report?**

- \$0 - if no outstanding balance.
- Minimum monthly payment – if outstanding balance and a minimum monthly payment shown



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Establishing Total Debt

Revolving Credit Card Debt

What payment is used based on information from the credit report?

- 5% of outstanding balance (or the actual payment from their most recent statement, whichever is lower) - if an outstanding balance but no specific minimum monthly payment.
- \$0 - if an outstanding balance but the applicant says it will be/has been paid in full (applicant must provide documentation to confirm paid in full).



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Revolving Credit Card Example

Creditor	Payment per Credit Report	Balance	Payment to Use in TD
Mastercard	\$25	\$600	\$25
Capitol One	Not listed	\$500	\$25 (\$500 x .05)
Sears	Not listed	\$150 - applicant says it was paid yesterday	\$0 - If applicant provides evidence it was paid in full; otherwise use \$7.50 (\$150 x .05)
VISA	Not listed	\$ 0	\$0



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Establishing Total Debt

- Recently obtained credit:
Verify terms & Include minimum payments
- If applicant is a co-signer or has not been released from a co-obligated debt (i.e. with a former spouse), include payment unless:
Evidence exists that another party has made debt payments (i.e. former spouse has made mortgage payment for the past 12 months)



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Establishing Total Debt

PITI plus what other obligations?

- Regular assessments (HOA, lease pymts., etc.)
- Long-term obligations (6+ months remaining)
- Payments coming due (in the next 12 months)
- Deferred debt (regardless of deferment period)
- Short-term obligations that significantly impact repayment ability (i.e. \$400 car payment with 4 months remaining)
- Student loan debt



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Medical Debt – **NOT** Included in Total Debt

Procedural Notice – May 9, 2022

- Medical debt is no longer included in Total Debt Ratio



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Establishing Total Debt

Student Loan Payments

- **If Deferred or in Forbearance – the higher of:**
 - Monthly payment as shown on TMCR,
 - OR
 - .50% of the loan balance(s)
- **In Repayment – actual payment if 4 criteria are met:**



1. Loan is in repayment status
2. Credit score 640 or higher
3. No indicators of Significant Delinquency
4. Payment shock of 100% or less



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Calculating Student Loans

Credit report lists student loan payment of \$0 /balance of \$15,000 and credit score 645

$$.50\% \text{ of } \$15,000 = \$75$$

- What payment is used if Deferred?
- What payment is used if in repayment and meet the 4 criteria?



34

Compensating Factors HB-1-3550, 4.24 A

- May be used to increase PITI and TD Ratios
- Compensating Factors must be recommended by the RD Loan Originator and approved by their next level supervisor
- Cannot be used with any other risk factors



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Compensating Factors

1. Payment history
2. Savings history
3. Job prospects
4. Homes constructed under specific Energy efficiency programs

Note: Automated calculator will factor it in, but does require RD approval



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Compensating Factor – Savings History

- Jason works full time and lives with his parents. He does not pay rent.
- He has \$10,000 in savings – the last 2 months' statements show \$700/month deposits

Per the standard ratio, Jason qualifies for a \$100,000 loan based on a \$500/month PITI payment. Homes in the area generally sell for \$130,000.

What options can you consider when making your recommendation to RD?



37

Compensating Factor – Job Prospects

Isabel has completed 6 months of a 3-year welding apprenticeship. Her current annual salary is \$35,000.

She indicated that in year 2 it will increase to \$40,000 and in year 3 to \$50,000.

Using her current salary - the standard ratio, qualifies her for a \$75,000 loan which is not adequate for her area.

What options can you consider when making your recommendation to RD?



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Other Considerations – If there is insufficient repayment income

- Additional parties to the note
 - Occupy the property
 - Co-Applicant
 - Income included in annual
- Cosigner(s)
 - Must not occupy the property
 - Income not included in annual
 - Must qualify on their own at full note rate



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Payment Shock

Calculation:

Total proposed PITI after subsidy	\$920.00
Divided by current housing expense (excluding utilities)	$\frac{\$400.00 \text{ (rent)}}{= 2.30}$
Minus	- 1.00
Equals payment Shock	= 1.30 (130%)

- Hint – If the house payment is double their current rent, it triggers payment shock.

When payment shock exceeds 100%, no additional risk layering is allowed without **STRONG JUSTIFICATION**



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Property Requirements



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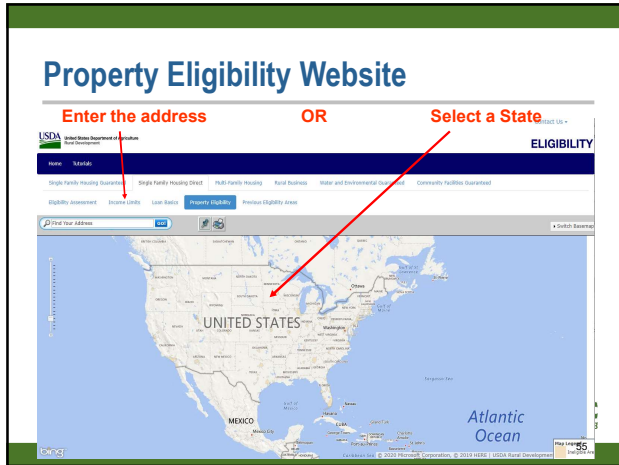
Eligible Rural Area

RD Property and Income Eligibility Website
<http://eligibility.sc.egov.usda.gov/eligibility/welcomeAction.do>

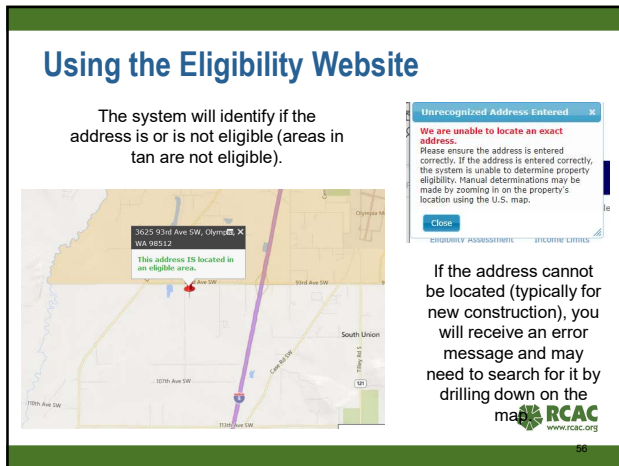
- Select Single Family Housing Direct
- Select Property Eligibility
- Accept disclaimer
- Enter the exact address or drill down



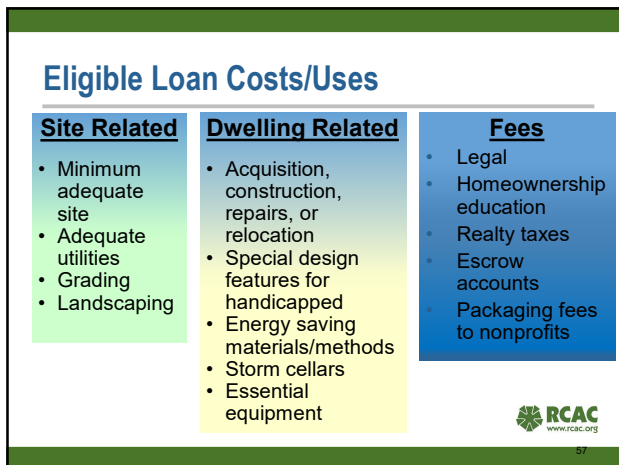
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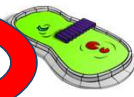


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Prohibited Features

Items which cannot be financed

- Properties with in-ground swimming pools



- Farm Service buildings and Income Producing Structures



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Area Loan Limits

In order for a property to be financed, it must be considered "modest", which is defined as:

A property that is considered modest for the area, does not have a market value in excess of the applicable area loan limit, and does not have certain prohibited features.

Area Loan Limits are determined annually by RD and can be found at:

[http://www.rd.usda.gov/files/RD-SFHAAreaLoanLimitMap.pdf](http://www.rd.usda.gov/files/RD-SFHA%20AreaLoanLimitMap.pdf)



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Modest Site

- Size – no limit provided it cannot be further subdivided under local subdivision regulations
- The site must not have income-producing land that will be used principally for income producing purposes.
- Zoning – must comply with applicable zoning

NO LONGER INCLUDES that the value of the site should not exceed 30% of the as improved market value of the property



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Adequate Site

- **Access** – from an all-weather road maintained by a public body or HOA.
- **Adequate water and wastewater** systems with assurance of continuous service at reasonable rates (may be publicly or privately owned)



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Modest Dwelling

- Market value under the applicable area loan limit
- Generally, gross above-grade living area should be:
 - No less than 400 square feet
 - Agency financed properties do not have limitations on maximum square footage



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Knowledge Check!

Grab your Poll Everywhere enabled device



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Self-Help Modest Housing Determination

- The maximum loan amount for self-help housing will be determined by adding the total of the market value of the lot (including reasonable and typical costs of site development), the cost of construction, and the value of sweat equity. The total of these factors cannot exceed the area loan limit for the area.



73

Decent, Safe and Sanitary, continued

New Construction must meet the standards found in RD Instruction 1924-C and 1924-A (also Section 6 of HB-1-3550 Chapter 5).



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Maximum RD Loan Amount

- Combined indebtedness (all liens) cannot exceed **Area Loan Limit** except for Agency authorized purposes (*appraisal, tax service fee, initial contribution to escrow, and homebuyer education fees for first-time buyers)
- The **amount needed** for the actual cost of the lot and improvements (new construction)
- Limited by applicant's **ability to repay**



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Packaging



Submit the Property Information



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Property Submission

- Phase 2 Property Submittal Cover Letter
Chapter 2, Attachment 3-A
- Insert your letterhead and information where indicated with brackets
- Checkmark and include item OR mark N/A where necessary



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Property Submission – Phase 2

Submit for all properties:

- A fully executed purchase agreement, applicable addendums and with deed or legal description
- Property eligibility website determination that confirms the property is in an eligible rural area
- Copy of existing survey or plot plan drawn to scale (if available)
- Property tax history and/or assessment information sheet (online sources acceptable)



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Property Submission Needs

For Self-Help/New Construction

- Approved Certified House Plans
- Specifications/Description of Materials
- Cost estimates



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Packager Responsibilities

In addition to considering the details of the property itself, the packager should confirm:

- The Annual Real Estate Taxes
- Cost of Hazard Insurance
- Cost of Flood Insurance if applicable
- Annual Homeowner's Association Dues if applicable



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Knowledge Check!

Grab your Poll Everywhere enabled device



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Insurance Requirements (HB-1-3550, Attachment 7-C)

- HB-1-3550, Attachment 7-C
- Hazard insurance required (covers buildings) when indebtedness is more than \$15,000
- Construction loans typically have a course of construction (aka Builder's Risk) policy first
- Effective date = date of closing



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Property Insurance Changes PN 538

- Flood insurance requirement when located in an SFHA as identified by NFIP
- 1st year of insurance premium must be paid 'before or at the time of closing'
- Encourage the borrower to obtain hazard insurance coverage in the amount **greater** of the insurable value of the dwelling and other essential buildings, or the outstanding principal balance of the loan



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Construction Budgets and Loan Amounts

- Handbook Letter 16
- Budget vs. max loan amount



90

Property Narrative

- Briefly describe the property
- Which House Plan did the applicant pick
- Total budget
- Is the applicant still eligible
- Participant Signatures!



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Self-Help Construction Loans

- Loan Closes – Payments Deferred
- Interest Accrues throughout construction
- Conversion
 - Scheduled for 1st of the month following final inspection/occupancy whichever is first
 - Payment due 30 days later
 - Date of Promissory Note isn't changed



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Self-Help Construction Loans (continued)

Taxes/insurance to be paid during construction

- Include in the initial escrow deposit OR
- Borrower pays as they come due

Insurance

- Course of Construction
- Once final inspection/occupancy permit, one year of hazard insurance. If not, Field Office can task National Financial and Accounting Operations Center (NFAOC) to forceplace.



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Knowledge Check!

Grab your Poll Everywhere enabled device



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Appraisals

- RD orders the appraisal
- Timing is based on location
- Planning on your part is important
- Loan docket contains the items needed for the appraisal



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What RD does once they receive the Property Information

- Issue the Loan Estimate
- Order the flood hazard determination and complete an environmental analysis on the property
- Order and review appraisals
- Determine property eligibility



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Once the Property Info is Reviewed

- Loan is approved and loan funds are obligated
- Form RD 3550-7, Funding Commitment and Notification of Loan Closing, issued to the applicant with cc: to packager
- Agency prepares for loan closing



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Inspections During Construction

Approved Inspector required for:

- Footer
- Frame-in
- Final

And provided to RD



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The importance of timing!

- Securing Land
- Recruiting participants (builders!)
- Getting eligibility
- Putting together Construction Documents
- Cost Estimates
- Implementation Schedule
- Clearly defining roles and responsibilities



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Environmental Reviews

Environmental: 3 basic categories (RD Instruction 1970 series)

- Categorical Exclusions
- Environmental Assessment
- Environmental Impact Statement



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Knowledge Check!

Grab your Poll Everywhere enabled device



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SELF-HELP 502 GUIDEBOOK

PROVIDED BY REGIONAL T&MA
CONTRACTORS
SECTION 523 MUTUAL SELF-HELP



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Evaluation Survey

- You will receive an evaluation by email later today, please complete this to let us know what we did right and where we can improve.
- Add to the Word Cloud on the next slide of one or two words of evaluation this training.



118



Questions?



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