newrez

USDA Underwriting Guide

Chapter 4C USDA Financing

Contents

4C.1 Determining Value

For any loan, the eligible amount of financing is determined by factors specific to that loan, including, but not limited to the type of financing, loan-to-value (LTV) ratio, loan amount, property type, and income determination.

Purchase	Value in a purchase transaction is generally defined as the lesser of the purchase price or appraised value of the subject property.
Non-Streamlined Refi	Value in a non-streamlined refinance transaction is generally defined as the appraised value of the subject property. See our Product Summaries for specifics in determining value based on product, property type, and length of title held.
Streamlined Refi	Value is based on the original loan balance
Streamlined Assist Refi	

4C.2 Calculating Loan-to-Value Ratios

4C.2(a) Loan-to-Value Ratio (LTV)

The LTV ratio is obtained by dividing the first mortgage amount, excluding the financed Guarantee Fee, by the value.

4C.2(b) Combined Loan-to-Value (CLTV Ratio)

The CLTV ratio is obtained by dividing the sum of the first mortgage amount, excluding financed Guarantee Fee, plus the current principal balance of subordinated closed-end second liens and/or the maximum available credit line of subordinated open-end second liens by the value.

4C.3 Temporary Interest Rate Buydowns

Temporary interest rate buydowns are designed to reduce the borrower's monthly payment during the early years of the mortgage. At closing, an escrow account is established. Each month, the servicing lender draws down an amount equal to the difference between the principal and interest payment (P&I) at the Note rate, and the P&I at the buydown rate.

The borrower must be qualified based on the note rate without consideration of the bought-down rate. If reserves are required, the reserves must be calculated using the Note Rate.
The mortgage instruments must reflect the permanent payment terms rather than the terms of the buydown

plan. In no event, may the buydown plan change the terms of the mortgage Note.

4C.3(a) Buydown Agreement

The borrower must agree in writing that the buydown funds in the buydown account will be automatically applied each month to reduce the monthly payment of principal and interest to the extent provided under the subsidy buydown agreement.

The buydown agreement must provide for all of the following:

- Must be a written agreement between the party providing the buydown funds and the borrower;
- Must provide that the borrower is not relieved of their obligation to make the mortgage payments required by the terms of the mortgage note if, for any reason, the buydown funds are not available;
- May include an option for the buydown funds to be returned to the borrower or to the Company, if it funded the buydown, if the mortgage is paid off before all of the funds have been applied;
- The executed agreement, must be included in the file and must clearly show the calculations of the total cost of the temporary subsidy buydown, any interested party contribution and the annual percentage increase in the borrower's monthly principal and interest payment; and
- All of the terms of the buydown plan must be disclosed to all parties, including the mortgage insurer, and the property appraiser.

4C.3(b) Terms of the Buydown

No limit is placed on the total dollar amount of an interest rate buydown.

The total dollar amount of an interest rate buydown must be consistent with the terms of the buydown period.

An interest rate buydown plan must provide for:

- A buydown period not greater than 24 months; and
- Increases of not more than 1% in the portion of the interest rate paid by the borrower in each 12-month interval.

More frequent changes are permitted as long as the total annual increase does not exceed 1%.

4C.3(c) Buydown Account and Funds

- Buydown funds may come from:
  - The seller;
  - The Client (not Newrez); and

  - Any other interested party.
- A split buydown is permitted when the buydown funds are paid by the lender, seller and/or third parties. A split buydown is not permitted when the borrower pays for any portion of the funds;
- The borrower may not provide the buydown funds;
- Buydown accounts must be established and fully funded by closing;
- Funds for buydown accounts must be deposited into custodial bank accounts. Note: Buydown funds cannot be included in accounts with the Company corporate funds;
- The borrower's only interest in buydown funds is to have them applied toward payments as they come due under the Note;
- Buydown funds are not refundable unless the mortgage is paid off before all the funds have been applied;
- Buydown funds cannot be used to pay past-due payments; and
- Buydown funds cannot be used to reduce the mortgage amount for purposes of determining the LTV ratio.

4C.4 Upfront Guarantee Fee

The Guarantee Fee is the up-front financing fee paid to the USDA for the loan guarantee. The guarantee fee may be paid in cash or financed into the loan amount. See our Product Summaries for details.

The Annual Fee is the premium paid monthly over the life of the loan. The initial Annual Fee, for the first year of the loan, will be calculated based upon the guaranteed loan amount. For the remaining years of the loan, the Annual Fee will be calculated on the average annual scheduled unpaid principal balance of the loan, not the actual unpaid principal balance. This fee will be added to the borrower's monthly payment and will remain for the life of the loan.

There are three (3) options for payment of the upfront guarantee fee:

1. Pay the entire upfront guarantee fee at closing;
2. Finance part of the upfront guarantee fee; or
3. Finance the entire upfront guarantee fee.

Examples

Option 1: PAY ENTIRE UPFRONT GUARANTEE FEE AT CLOSING
Borrowers may elect to pay the entire fee at loan closing from personal funds, seller concessions, or eligible gift assistance at settlement.

Example $100,000 loan amount $100,000 x 1% = $1,000 upfront guarantee fee paid at loan closing
Option 2: FINANCE PART OF THE UPFRONT GUARANTEE FEE
The borrower may elect to finance only a portion of the upfront guarantee fee. The remaining amount of the upfront guarantee fee not financed will be paid by the borrower from personal funds, seller concessions, or eligible gift assistance at settlement. Example: Total loan amount will be $100,500 x 1% = $1,005 (Guarantee fee) The borrower will pay the remaining $505 of the guarantee fee from personal funds at settlement ($1,005 total fee less $500 financed = $505)
Option 3: FINANCE THE ENTIRE UPFRONT GUARANTEE FEE
The appraised value may only be exceeded by the amount of the upfront guarantee fee financed. Therefore, the entire upfront guarantee fee may be financed into the total loan. Example The appraised value = $100,000 The purchase price = $98,000 Finance $2,000 in eligible loan closing costs (does not include the upfront guarantee fee) Base loan amount = $100,000 ($98,000 purchase price + $2,000 eligible closing costs) Total loan amount including the entire upfront guarantee fee being financed $100,000 / .99 = $101,010.10 (total loan amount including the upfront guarantee fee) $101,010.10 x 1% = $1,010.10 (upfront guarantee fee)

4C.5 Property Assessed Clean Energy (PACE)

Property Assessed Clean Energy (PACE) refers to an alternative means of financing energy and other PACE-allowed improvements to residential properties using financing provided by private enterprises in conjunction with state and local governments.

Generally, the repayment of the PACE obligation is collected in the same manner as a special assessment tax is collected by the local government rather than paid directly by the borrower to the party providing the PACE financing and is also secured in the same manner as a special assessment tax against the property.

In the event of a sale, including a foreclosure sale, of the property with outstanding PACE financing, the obligation will continue with the property causing the new homeowner to be responsible for the payments on the outstanding PACE amount. In cases of foreclosure, priority collection of delinquent payments for the PACE assessment may be waived or relinquished. **As a result, loans encumbered with PACE or PACE-like obligations are not eligible for USDA financing.**

4C.5(a) Purchase Transactions

The sales contract must include a clause specifying that the PACE obligation will be satisfied by the seller at, or prior to closing. The FHA roster appraiser must be informed that the PACE obligation will be paid off as a condition of loan approval.

The appraiser must report the outstanding amount of the PACE obligation(s) and the valuation impact of the PACE-related improvements.

4C.5(b) Refinance Transactions

The outstanding PACE obligation may be included as existing debt to be paid off as part of rate and term refinance transaction.

4C.6 Principal Curtailment

A principal curtailment is the application of funds that are used to reduce the unpaid principal balance of the loan.

4C.6(a) Delegated Client

A principal curtailment is permitted.

4C.6(b) Non-Delegated Client

A principal curtailment is permitted. The maximum amount of the curtailment cannot exceed $500.

If the program permits, the borrower may also receive cash back within program guidelines in addition to the amount of the curtailment.

4C.7 Escrow Waivers

Not permitted.

Revision History	Date
Overlay identified for: A split buydown is not permitted when the borrower pays for any portion of the funds	04.01.2024