When a loan is approved through an Automated Underwriting System (AUS), requirements provided from the system must be met in order for a loan to acceptable to an agency for purchase or insuring. The loan may have additional requirements, but in general, a borrower's housing-to-income or overall debt-to-income ratio can sometimes be very high. The AUS system may tolerate higher housing ratio (housing payment divided by income) or an overall debt ratio (housing and all credit obligations divided by income) because of lower risk in another category. For example, a loan where a borrower has a high FICO score, or the loan-to-value is lower than the maximum permitted for a program, the AUS system may approve a borrower for the loan.

But what happens if the system will not accept very high housing or debt ratios because of additional risk factors, such as a low FICO score? This loan must then be underwritten manually by an experienced underwriter

All of the agencies allow manual underwriting under certain circumstances. The lender may have their own restrictions, but in general, a borrower may be eligible for a loan even with certain high risk features. Some areas may be subject to underwriting discretion FHA (ML#14-02) has issued guidelines for manually underwritten loans on FHA cases ordered on or after April 21, 2014.

RESERVE REQUIREMENTS: For manually underwritten loans, a reserve requirement has been added. A reserve represents liquid assets after the down payment and closing costs are paid. Take the remaining liquid assets and divide it by the borrower's new housing payment (P&I, Taxes and Insurance).

- For property types that are 1-2 units, the reserve requirement is 1 months' PITI in reserves.
- For property types that are 3-4 units, the reserve requirement is 2 months' PITI in reserves.

The general requirement for a borrower's ratios for manually underwritten loans is: 31% housing and 43% overall. With additional requirements, some borrowers may be eligible to have higher housing and/or overall ratios. For Energy Efficient Homes as defined by HUD, the ratio tolerance is 33/45. The factors that will determine whether a ratio can exceed the limit established for manual underwritten loans, is based on the factors below:

- FICO score
- Housing and Overall Debt Ratios.
- Specific compensating factors identified by FHA.
- Number of compensating factors required based on the Housing and/or Overall Ratio.

FICO SCORE: If the FICO score is lower than 580, or, the borrower has no credit score, the ratio is firm: **31/43%.**

If the FICO score is 580 or higher, the ratios can exceed 31/43 but compensating factors (one or more) must be met. Compensating factors must always be identical to HUD's list of compensating factors, and must be properly documented.

RATIOS 31/43 – FICO SCORE 580: No additional Compensating Factors other than the reserve requirement stated earlier is necessary.

RATIOS 40/40- FICO SCORE 580: Since the housing ratio is extremely high, HUD requires that the borrower has established credit with open credit lines. Any credit line with an open balance (i.e., revolving account) must be paid in full each month. The only installment debt the borrower may have is a housing payment.

RATIOS 37/47 – FICO SCORE 580: At least one of the compensating factors listed below is required.

RATIOS 40/50 – FICO SCORE 580: At least two of the compensating factors are required. A compensating factor of additional income that cannot be used for qualifying is available can be considered a second compensating factor for borrowers whose ratio is 40/50.

COMPENSATING FACTORS

- **RESERVES:** 3 months PITI for 1-2 unit properties and 6 months PITI for 3-4 unit properties.
- **SIMILAR HISTORICAL HOUSING PAYMENT**: Not to exceed $100 or 5% higher than the borrower's current housing payment.
- **RESIDUAL INCOME:** Using VA's formula, the borrower has adequate residual income. VA's residual income chart is:

ADDITIONAL COMPENSATING FACTORS FOR RATIOS OF 40/50.

- Verified and documented additional income that was not used in the borrower's qualifying (effective) income because that income has existed for less than two years. Income such as overtime, bonus, second job, part-time job, seasonal work can be considered a compensating factor as long as the history is one year or more, and is likely to continue.

VA RESIDUAL INCOME CHART for 2013.

Table of Residual Incomes by Region
For loan amounts of $79,999 and below

Family Size	Northeast	Midwest	South	West
1	$390	$382	$382	$425
2	$654	$641	$641	$713
3	$788	$772	$772	$859
4	$888	$868	$868	$967
5	$921	$902	$902	$1,004
over 5	Add $75 for each additional member up to a family of seven.			

For loan amounts of $80,000 and above

Family Size	Northeast	Midwest	South	West
1	$450	$441	$441	$491
2	$755	$738	$738	$823
3	$909	$889	$889	$990
4	$1,025	$1,003	$1,003	$1,117
5	$1,062	$1,039	$1,039	$1,158
over 5	Add $80 for each additional member up to a family of seven			

💣 VA does not give guidance on regional areas. Use map standards for property location to determine residual income by location.

💣 VA counts "job related expenses" such as a long commute or child care as an expense. FHA does not. You should not have to deduct this from the borrower's income to determine residual income since it is not a normal FHA expense.

DONNASHI ENTERPRISES, INC.

FORMULA FOR DETERMINING RESIDUAL INCOME

ITEM	**BORROWER 1**	**BORROWER 2**	
GROSS INCOME	$	$	
MINUS WITHHOLDING TAX			
MINUS HOUSING			
MINUS OBLIGATIONS			**BOX A RESIDUAL INCOME**
RESIDUAL INCOME			**$**

If Box A is: > than the amount on the VA Chart, this is an acceptable compensating factor.

To view HUD'S guidelines, go to:
http://www.gpo.gov/fdsys/pkg/FR-2013-12-11/pdf/2013-29170.pdf.