

Welcome to the REO Property GUS application page, presented by USDA's Single Family Housing Guaranteed Loan Program!



The training objectives will review each section of the GUS REO Property application

- REO property information,
- Property address, and

page which includes:

• Financial information.



# **REO Properties: Not Applicable**

- · Manufactured homes on rented lots
- Manufactured homes not titled/taxed as real property
- Timeshares

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Before the review of the REO Properties application page, there are some transactions that are not required to be completed.

- Manufactured homes or trailers that are located on rented lot space or are not taxed/titled as real estate are not considered personal property.
- Timeshares are also not required to be entered on this application page due to the nature of their ownership interest.

Please ensure all applicable debts associated with these liabilities or ownership are reflected on the "Asset and Liabilities" application page.



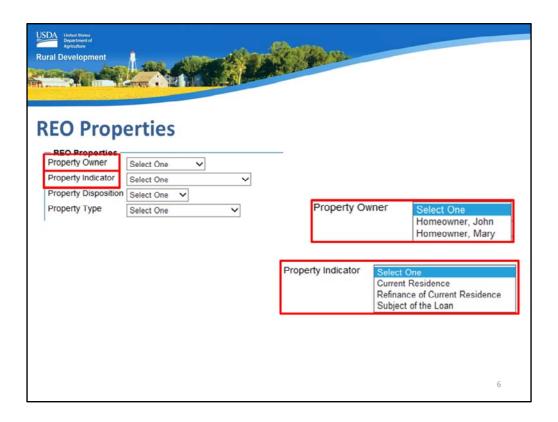
Users can enter information regarding REO properties from the GUS Assets and Liabilities application page.

Under the "REO Property Information" section users may select the "REO Property Information" button.



The REO Properties application page will display. There are three sections:

- REO Properties
- Property Address, and
- Financial Information.

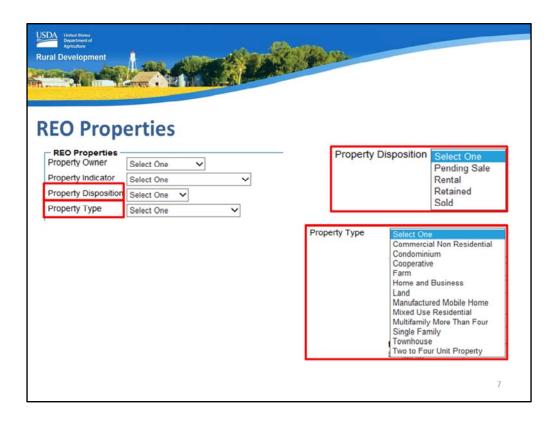


The REO Properties section will capture the property:

- Owner
- Indicator
- Disposition, and
- Type.

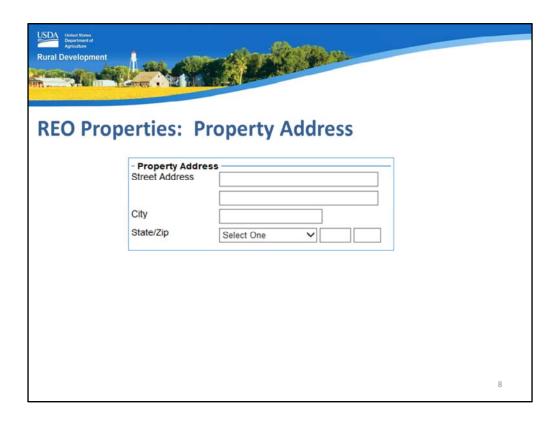
This slides displays the drop down selections for the "Property Owner." Please select the appropriate applicant for the property.

The "Property Indicator" includes Current Residence, Refinance of the Current Residence, or Subject of the Loan.



Users may select the "Property Disposition" from Pending Sale, Rental, Retained, or Sold. It is important to make the correct selection in order to allow for additional data fields to be available for completion on this page.

The "Property Type" may also be selected from the twelve options displayed in the drop down box on the slide.



In the Property Address section the user will enter the following for the REO property:

- Street Address
- City
- State, and Zip.

The property address must be completed in order for the user to be able to select this property to coincide with any mortgage debts on the "Assets and Liabilities" application page.

REO Properties: Financial Information				
•				
	- Financial Informatio Present Market Value	\$0.00	7	
	Amt of Mortgage Liens	\$0.00	Ī	
	(To override Calculated Net Equity, enter amount in second column).			
	Net Equity	\$0.00	\$0.00	
	Gross Rental Income	\$0.00		
	Mortgage Payments	\$0.00		
	Insur Maint Taxes	\$0.00	i l	
	(To override Calculated Net Rental Income, enter amount in second column).			
	Net Rental Income	\$0.00	\$0.00	
	Delete			
				9

The Financial Information section will allow for data entry into the following fields as applicable to the selected property disposition:

- Present Market Value,
- Amount of Mortgage Liens,
- Net Equity,
- Gross Rental Income,
- Mortgage Payments,
- Insurance, Maintenance, Taxes, and
- Net Rental Income.

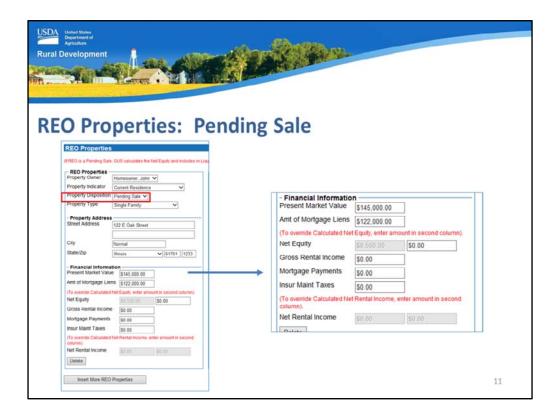
GUS will automatically calculate net equity and net rental income when it applies, but the user can override the calculation. These data fields will be covered in the appropriate disposition examples.

The following slides will review GUS data entry based upon the selected property disposition.



The first example will be for a Pending Sale.

At the top of the REO Properties application page there is a red message that states: "If REO is a Pending Sale, GUS calculates the Net Equity and includes in Liquid Assets. Net Equity can be calculated outside of GUS and entered (positive or negative) as Net Equity in the Assets section. If Net Equity is entered in the Assets section, GUS will use that amount in the Liquid Asset calculation."



The user has completed the REO Properties section to reflect a "Property Disposition" of "Pending Sale" of the "Current Residence."

The "Property Address" section is completed.

The "Financial Information" section will allow the user to complete the "Present Value" and "Amount of Mortgage Liens." Based on these two figures, GUS will calculate the "Net Equity."

The red message states "To override Calculated Net Equity, enter amount in the second column."

"Net Equity" has two data fields. The first one is the GUS calculation. GUS calculates the net equity of the property as 90% of the present market value minus the amount of mortgage liens.

If the user calculates a higher or lower amount that is supported with documented evidence, they may enter the new figure (positive or negative) in the second data field. GUS will use the data entered by the user for liquid asset calculations and underwriting recommendation purposes.

Because this is a pending sale, the data fields of "Gross Rental Income, Mortgage Payments, Insurance Maintenance Taxes, and Net Rental Income" will not be completed.

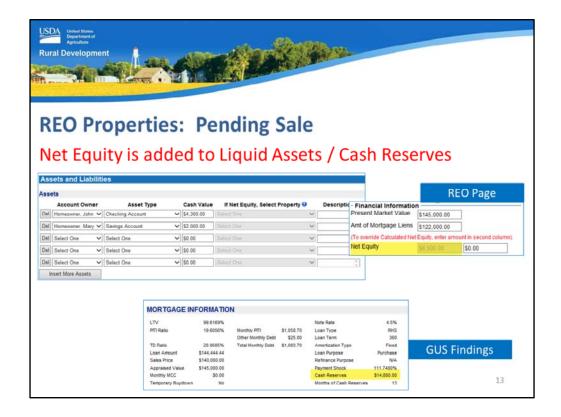
The user may save the application page and return to the "Assets and Liabilities" page.



Back on the "Assets and Liabilities" application page, the mortgage debt associated with REO Property was entered under the "Mortgage Liabilities" section.

The property is pending sale, therefore the user may select "Paid by Close" when the property will sell before the new proposed mortgage is closed, this will ensure the mortgage liability is not included in the debt ratio calculation.

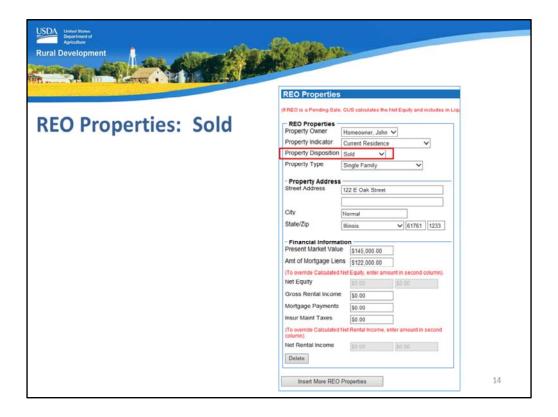
The user may also complete "Select Property" from the drop down box that will now reflect the address entered on the "REO Properties" application page.



As stated in the red message at the top of the REO Properties application page, GUS included the "Net Equity" in the liquid assets.

The "Assets and Liabilities" application page reflects \$6,300 of entered assets. The REO Properties application page reflects \$8,500 of Net Equity.

This example assumes no cash was required from the borrower at loan closing. Therefore \$14,800 of cash reserves is stated on the GUS Underwriting Findings Report.

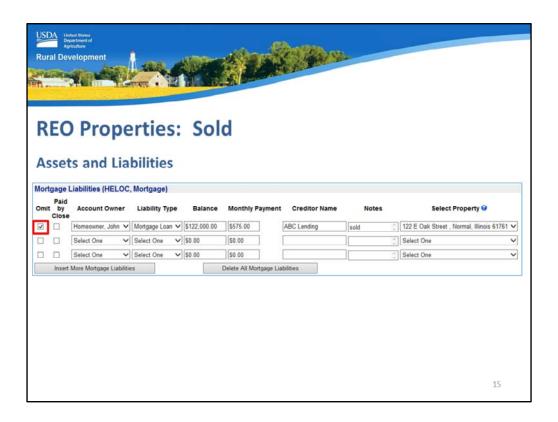


The next example is for a property disposition of "Sold."

The "Property Address" section is complete.

In the "Financial Information" section the user can complete the applicable data fields of "Present Market Value" and "Amount of Mortgage Liens."

Notice that "Net Equity" is not calculated by GUS for a sold property disposition. Therefore if net equity or sale proceeds are realized, the user must manually enter these assets on the "Assets and Liabilities" application page if they are not reflected in a depository account.



The property is already sold. Therefore any proceeds realized from the sale of the home may be reflected in a liquid checking or savings account.

The corresponding mortgage liability may be omitted because the property is sold and the loan closing has already occurred. By selecting "omit" the monthly payment will not be included in the debt ratio calculations. The property address will be available under the "Select Property" drop down box.



In this example the REO disposition is "Rental."

The "Property Address" section is complete.

In the "Financial Information" section the following data fields may be completed:

- Present Market Value
- Amount of Mortgage Liens,
- Gross Rental Income,
- Mortgage Payments, and
- Insurance, Maintenance, Taxes.

GUS will calculate the "Net Rental Income" based on the data entered in this section. GUS will enter this amount in the first data field. GUS uses a 25% vacancy factor when calculating net rental income. In this example the net rental income of \$1,200 would be reduced by 25% to \$900. Then the \$450 mortgage payment and \$125 of Insurance, Maintenance, and Taxes would be deducted. This arrives at the positive net rental income amount of \$325.

If the actual net rental income is more or less than the GUS figure and it can be supported with documentation, the user may enter that amount (positive or negative) in the second data field.

Helpful Tip: Only positive net rental income received for 24 months or more may be

determined as stable and dependable income for repayment purposes. If the rental income has been received for less than 24 months, users should not complete the "Gross Rental Income, Mortgage Payments, or Insurance, Maintenance, Taxes" data fields.



The "Net Rental Income" calculated on the "REO Properties" application page was \$325. The user did not enter an alternate amount in the second data field for GUS to consider for the application.

GUS will automatically add positive rental income to the "Net Rental" data field on the "Income and Expenses" application page.

Negative rental income will be added to the monthly liabilities prior to ratio calculations.

Helpful Tip Reminder: Only positive net rental income received for 24 months or more may be determined as stable and dependable income for repayment purposes.



On the "Assets and Liabilities" application page, IF the REO property has been rented for a minimum of 24 months, the corresponding mortgage liability may be omitted. This will ensure the mortgage payment is not included in the debt ratio calculations.

Notice on this screen shot the user entered under "Notes" that the property had been rented for 28 months. Nice touch! Now the underwriter and USDA are aware that the user knows that only rental properties with a minimum of 24 month rental history are eligible to include rents received for repayment and omission of corresponding mortgage debts.

The property address will be available under the "Select Property" drop down box.



Rental income that has been received regularly must be considered in the annual income calculation to determine program eligibility as required under 3555.152(b).

This slide displays the entry of net rental income in the "Monthly Gross Income For All Household Members" section.



This example will review the correct GUS sequence when the net rental income is negative. In this example, the "Net Rental Income" calculated on the "REO Properties" application page was a negative \$332.50. The user did not enter an alternate amount in the second data field for GUS to consider for the application.

GUS will automatically reflect this negative amount in the "Net Rental" data field on the "Income and Expenses" application page.

However, GUS does not deduct the loss from the repayment income. GUS will include this loss of \$332.50 per month in the total debt ratios.



On the "Assets and Liabilities" application page, IF the REO property has been rented for a minimum of 24 months, the corresponding mortgage liability may be omitted. This will ensure the mortgage payment is not included in the debt ratio calculations.

GUS is already including the net rental income loss into the monthly debt ratio calculations. Therefore if the user does not "omit" the mortgage liability from this application page, the applicant will be negatively impacted by not only mortgage loan payment but also the negative net rental loss as well. This should be avoided.



Net rental income losses are considered zero for annual income and program eligibility calculations per 3555.152(b). Therefore, the user will not enter any amount in the "Net Rental" income data field.



Based on the data entries we have reviewed, let's double check our work to ensure the rental loss is properly documented in GUS.

The GUS Underwriting Findings Report shows the "Other Monthly Debt" total as \$732.50. This would include the two eligible debts listed on the "Assets and Liabilities" page of \$375 and \$25. Notice the other two revolving debts were selected as "paid by close" by the user.

\$375 plus \$25 plus the net rental income loss calculated on the "REO Properties" page of \$332.50 equals the total of \$732.50. This would indicate the net rental loss is correctly entered into GUS and the applicant is not being hit again for the current mortgage liability associated with this rental property.



If the user was concerned that GUS not only included the net rental loss in the monthly liabilities, but also deducted the loss from repayment income, a quick check of the GUS Underwriting Findings Report will verify that the full repayment income data entry of \$5,400 was utilized.

So while GUS may show a deduction of the net rental loss on the "Income and Expenses" application page, it truly includes the loss in the monthly liabilities total as previously reviewed.



### **Rental Income Reminders**

#### Received 24 months or more

- Complete Financial Information on REO Properties
- Positive income will pre-fill on Income & Expenses
- Negative income will reflect in monthly liabilities total
  - It will reflect on Income & Expenses page but it is not deducted from income
- · Add positive income to Eligibility
- Omit corresponding mortgage/real estate liabilities

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Let's review some rental income reminders for properties with a documented receipt of rent for 24 months or more:

- Users may complete the "Financial Information" section of the "REO Properties" page.
- Positive net rental income will automatically pre-fill in the "Net Rental" income data field for repayment income on the "Income and Expenses" application page.
- Negative net rental income will be added to the total monthly liabilities figure before
  debt ratios are calculated. There will not be a corresponding liability created by GUS on
  the "Assets and Liabilities" page. Users will see the negative rental income reflected on
  the GUS Underwriting Findings Report in the "Mortgage Information" and "Expenses"
  sections. The negative income will appear on the "Income and Expenses" application
  page as negative net rental income, but GUS does not deduct this from repayment
  income.
- Users must add positive net rental income to the "Eligibility" application as applicable under 7 CFR 3555.
- Any corresponding mortgage or real estate debts associated with the rental property may be omitted from the debt ratio calculations.



### **Rental Income Reminders**

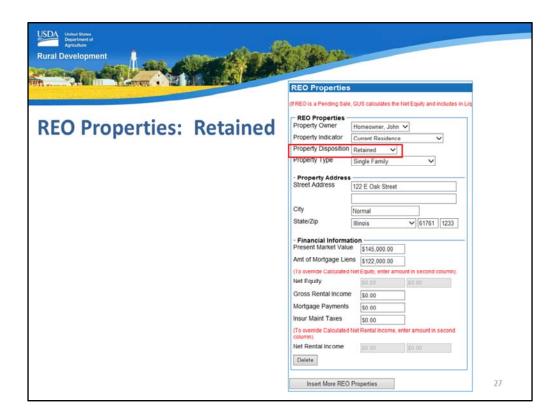
#### Received less than 24 months

- Do not complete Financial Information on REO Properties
- · No history for repayment consideration
- Do not omit corresponding mortgage/real estate liabilities
- · Add positive income to Eligibility

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When rental income has been received for less than 24 months:

- Users should not complete the "Financial Information" section of the "REO Properties" page. This will ensure GUS does not add unsupported net rental income to the application.
- Rental income received for less than 24 months is not considered a stable or dependable source of income for repayment purposes.
- The applicant remains responsible to pay for all mortgage and/or real estate liabilities associated with the property.
- Users must add positive net rental income to the "Eligibility" application page as applicable per 7 CFR 3555.

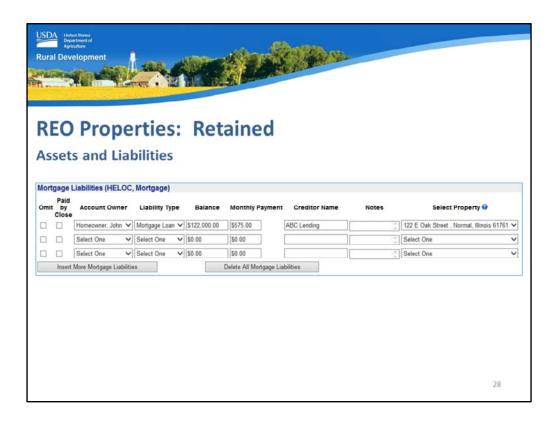


This is a retained property example.

The "Property Address" section is complete.

Because the property will be retained there is no part of the "Financial Information" section that should be completed, but the following data fields are available:

- Present Market Value and
- Amount of Mortgage Liens.



The home is retained, therefore all mortgage liability payments associated with the home must be included in the debt ratios.

The property address may be chosen from the "Select Property" dropdown box.



## **REO Properties: Retained**

#### No mortgage debt

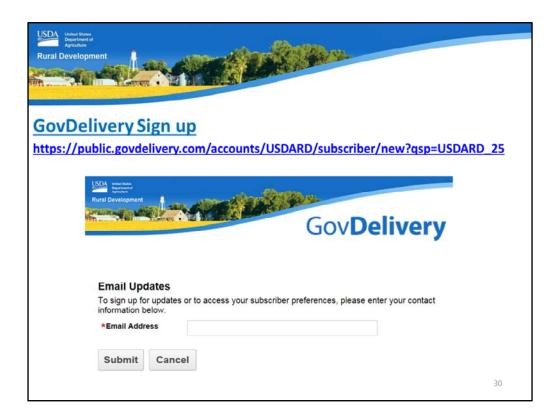
Assets and Liabilities page

- Include real estate taxes, insurance, assessments, HOA fees, etc. under "Other Liabilities"
- No downgrade of a GUS Accept is required for manual entry of these monthly debts

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Applicant's that will retain a property that has no mortgage liability must have the continuing monthly debts of real estate taxes, insurance, special assessments, HOA fees, etc. included in the debt ratios as applicable. This is accomplished by returning to the "Assets and Liabilities" application page and manually entering these debts in the "Other Liabilities" section.

When these items are manually entered into GUS, an underwriting recommendation of "Accept" will not require a downgrade.



Please sign up for GovDelivery messages. USDA sends out origination (including GUS) and servicing messages to alert lenders of new publications, clarifications, and additional program updates.



Thank you for supporting the USDA Single Family Housing Guaranteed Loan Program! We appreciate the opportunity to help you serve more rural homebuyers!



This will conclude the training module. Thank you and have a great day!