

**PATERSON HABITAT FOR HUMANITY**  
**MORTGAGE UNDERWRITING STANDARDS**  
**PROCESSING GUIDELINES**

**ABILITY TO PAY MORTGAGE**

The underwriting process analyzes each loan file to determine the applicant's(s) creditworthiness, his/her/their willingness and ability to repay the mortgage. Income from all applicants can be used to determine the ability to pay the mortgage. It should be noted, however, that anybody with income that is being used to determine the ability to pay the mortgage must sign the application and the note.

**INCOME GUIDELINES**

**Minimum income** is set annually at 30% of median income (using HUD guidelines) for a family of 4. The minimum income is the same regardless of family size. **Maximum income** is set at 80% of median income according to family size. Generally the HUD guidelines are usually issued during 1<sup>st</sup> qtr of the year. **Family services staff are responsible for updating income figures** and circulating to Columbia Bank's underwriting department which reviews Habitat applications and executive director who will forward to finance and executive committees.

**Calculating Eligible Income:**

Family income = only "Owner Applicants" -- those who will be legal owners (and listed on mortgage and note.)

*Note: See further discussion of income in employment/income section.*

**DEBT TO INCOME RATIO**

The **total monthly debt payments** are the sum of the monthly housing expense, payments that extend beyond seven (7) months on installment and revolving debt.

There are two ratios that are used when evaluating an application. The "front-end" ratio refers to the portion of gross monthly income that is used for housing expenses. These housing expenses include mortgage, taxes, insurance and utilities. The "back-end" ratio represents the portion of gross monthly income that is used for total debt, including the housing expense.

**Front-end ratios (housing expenses) should not exceed 33% and any ratio over 30% needs to be approved by Executive committee in order to forward to bank for financial review.**

**Back-end ratios (total debt) should not exceed 40% - however, a good application with a 41% ratio will be considered for mentoring during Habitat program process.**

**Preferred ratios are 30/38. Ratios exceeding the preferred ratios will be allowed if compensating factors exist (i.e. solid credit and/or employment history, etc.)**

## **CREDIT REPORT**

The credit report will provide verification of applicant's(s) credit status, open accounts, current balances as well as the willingness to repay the mortgage (as demonstrated by past payment history.)

Applicant(s) must obtain copy of their credit report. If applicant (s) has no credit history, alternative house hold monthly expenses documentation should be gathered including current rent payment history as a means of building a "credit profile" of the applicant. Applicant must also provide the printout from each bureau stating no credit history.

### **Satisfactory credit history is required:**

- No outstanding judgments, collection or bankruptcy on record less than 2 years.
- Demonstrates "Rebuilt" credit history with 2 years since bankruptcy
- Poor credit history mandates credit counseling and or proof of re-building credit within 12 months since poor payments. (i.e. payment arrangements, settlement agreement, etc)
- A detailed written explanation signed by the applicant(s) must be on file for poor credit.

## **EMPLOYMENT/INCOME**

A written verification of employment/income is required to determine the applicant(s) stability, likelihood of continued employment as well as providing evidence that the applicant's(s) income is sufficient to cover the monthly debt.

- Employment must be verified for two (2) consecutive years however, need not be with same employer.
- If the applicant(s) employment has changed within the last two (2) years, a written verification of previous employment must be obtained
- At least six (6) months employment in present position is preferred but solid employment history will compensate for recent job change.
- Signed two years recent Individual Tax Returns with W2s attached plus most recent one month's worth of pay stubs.

### **Overtime/bonuses:**

Consistent bonuses (reported for at least the past 3 years) will be considered reliable income and used to qualify (or disqualify if this amount pushes the family over the maximum allowed) the applicant.

Seasonal overtime (reported for at least the past 3 years) will be considered and averaged out for the year.

Income from sources other than employment can be considered as qualifying income with proper documentation. The following may be considered:

- Social Security Income - acceptable verification includes a photocopy of Social Security Awards Letter
- Alimony or Child Support - acceptable verification includes copy of Divorce Decree/Court Order. Documentation of stability of payments is a benefit to the applicant in considering this source of income. (i.e. paymaster, court report printout)
- Benefits that have defined expiration dates must have a remaining term of at least three (3) years to be considered as income.

Percentage of total income derived from sources other than employment is irrelevant.

Self-employed Applicant - Self-employment is defined as “an individual with ownership interest in a business” (e.g. Corporation, Partnership and wholly-owned proprietorship)

The following documentation must be reviewed to determine the probability of mortgage repayment:

- Two years signed Individual Federal Tax Returns
- Two years Federal business returns if the business is a Corporation or Partnership
- If more than six (6) months have passed since the end of the tax returns, a current year to date financial statement is required.

## **PROCESSING**

Upon completion of the initial document review, the application is put into processing. The purpose of loan processing is to obtain all pertinent documentation to support the underwriting decision.

1. Financial Summary Form – This form is used to track documents received and outstanding.

2. Initial Documentation

The following documents are required:

- a. Employment Verification Form – All employment should be verified for the past two years. Verification forms need to be signed by the applicant before being mailed to employer(s).
- b. Credit Report – Each applicant is asked to send away for a credit report from each of the *three* repositories: Experian, Equifax, and TransUnion. Applicants are advised that they are entitled to receive one free credit report each year.

Additional documentation required is discussed in the income verification section.

## **INCOME VERIFICATION**

### **3. Income from Employment**

- a. The dates of employment listed on the returned “Verification of Employment” form should conform to information listed on the application. Any employment gaps beyond one month should be satisfactorily explained. The probability of continued employment should be positive.
- b. Income from employment can include bonuses and overtime if the continuance of these items is evident. If bonuses and overtime exceeds 25% of applicant’s base pay, then two full years of 1040’s will be required to document receipt of this income in the past.
- c. If the 1040 for the previous year was filed more than 2 months prior to application, and bonuses and overtime are included in the income, a recent pay stub is required. The pay stub must reflect year-to-date earnings.

### **Social Security Income**

- d. A copy of the Award Letter from the Social Security Administration must be obtained to verify amount of benefits being received. Social Security continues as long as the children (under the age of 18) are the responsibility of the adult receiving assistance. Cases are evaluated every six months.

- e. Temporary assistance continues as long as: 1) children are still with the custodian, 2) one or both parents have not moved in, 3) biological parents become employed as child support is sought. Assistance may be discontinued if household income exceeds maximum allowed.

#### **4. Income from Public Assistance**

- a. Documentation must be obtained to verify the amount of Public Assistance and the duration of such income. Duration of less than three years should not be considered in the income calculation.
- b. Public Assistance in the form of rent subsidies cannot be considered due to the fact that the applicant will no longer receive these subsidies.

#### **5. Income from Child Support**

- a. A copy of the Divorce Decree / Settlement must be received to confirm amount of child support to be paid to applicant.
- b. If payment is not made through a garnishment, a copy of checks received, or bank statements indicating the amount of the child support must be provided to document stability of payments. A history of payment receipts for 12 months is required— unless this is not possible due to date of decree.
- c. Child Support income that is not expected to continue for three years should not be included in the income calculation. Ages of the children for whom support is being received should be reviewed and compared to the Divorce Decree/Settlement to determine the duration of these benefits.

#### **6. Self-Employed Applicant** – Self-employment is defined as “an individual with ownership interest in a business” (e.g. Corporation, Partnership, and wholly-owned sole proprietorship.) The following documentation must be reviewed to determine the probability of mortgage repayment:

- a. Two years signed Individual Federal Tax Returns
- b. Two years Federal business returns if the business is a Corporation or Partnership
- c. If more than six (6) months have passed since the end of the filing year for most recent tax returns, a current year-to-date financial statement may be required.

#### **7. Misc. Income**

- a. Any other income that an applicant receives can be considered only if proper documentation can be provided. Additional income must have been received for a period of at least 12 months in order to be considered.

### **CALCULATING MONTHLY INCOME**

Monthly gross income can be calculated using one of the following methods. The method chosen is determined by the information given of the Verification of Employment form received from employer.

- b. Divide verified annual income by 12
- c. Multiply verified weekly income by 52, and then divide by 12.
- d. Multiply verified hourly income by number of hours worked per week, then multiply by 52 and divide by 12. (Note: This method requires that the Verification of Employment form include the number of hours worked each week.)

## **CREDIT REPORT EVALUATION**

1. Review for late payments, charge offs, collection items etc.
  - a. Determine reason for late payments from applicant
  - b. All charge offs, collection items, late payments must be satisfactorily explained.  
All “written off” debt must be paid in full prior to considering application, except if applicant is currently making regular payments, which will pay off the debt the PHFH incoming process and prior to closing. **Exceptions will be considered for such things as: repayment of medical expenses, which are of such a scale as to be impossible to be paid off without declaring bankruptcy.**
2. Compare credit report to debts listed on application
3. Credit reports must be reviewed thoroughly to verify applicant names, social security numbers, addresses, occupations etc.
4. Review reports for any inquiries made recently. This may indicate that the applicant is seeking additional credit.
5. All judgment, suit, bankruptcy, must have proof of satisfaction of any that appears on the credit report.

## **CALCULATING MONTHLY DEBT**

(See Debt Ratio section at the beginning of document when considering “current housing income.”)

8. Determine monthly payments for revolving debt
  - a. If credit report states a monthly payment amount, then that amount should be used in the total debt calculation.
  - b. If credit report does not state a monthly payment amount, then calculate 5% of the total outstanding balance to determine a monthly amount to use in the debt calculation.
9. Determine monthly payments on outstanding loans  
Any outstanding loans with less than six months remaining do not need to be considered in the debt calculation.
10. Determine current and future housing expense
  - a. Current housing expense includes rent and utilities etc. Rent amount should be reviewed to determine whether or not utilities are included.
  - b. Future housing expense includes Habitat mortgage amount, taxes etc.
11. Determine overall debt amount

## **COMPUTING THE DEBT-TO-INCOME RATIO**

1. Calculate gross monthly income:
  - a. See section on “Calculating Monthly Income”
2. Calculate total monthly housing expense
  - a. See section on “Calculating Monthly Debt”

12. Calculate total monthly debt.
  - a. See section on “Calculating Monthly Debt”
13. Divide current monthly housing expense into gross monthly income (current front-end ratio)
14. Divide future monthly housing expense into gross monthly income (projected front-end ratio)
  - a. This ratio should not exceed 30%
15. Divide total monthly debt into gross monthly income (back-end ratio)
  - a. This ratio should not exceed 38%, although 40% will be approved with compensating circumstances.
16. Divide total gross annual income into total outstanding debt (not including mortgage (overall debt ratio)
17. Calculate Total Debt.

Total debt is not considered as long as debt-to-income ratios are met.

### **PRE-CLOSING VERIFICATIONS**

Because of the length of time between the date the application and the date of closing on a Habitat home, it is prudent to conduct a final review of documentation to ensure that no major changes have taken place with the applicant’s financial status.

**At 300 hours** – when house location is selected, the following documents will be ordered:

- a. Credit report – No additional debt should have been added during the sweat equity period. Payment history should indicate that all payments have been made on time. A debt-to-income ratio should be calculated to ensure that it remains within the approved limits.
- b. Savings verification – Savings account verification of closing cost accumulation should be obtained.
- c. Pay stubs for one-month prior and/or employment verification should be obtained.

**If contract signing** is six months or more after the 300-hour review, an inter office financial review (as listed for 300 hours review) may be repeated. Typically no further financial review is done prior to closing unless applicant’s past reviews warrant closer scrutiny.

## **FAMILY SELECTION CRITERIA**

### **NEED FOR HOUSING**

1. Substandard construction (does not meet city codes)
2. Over-crowdedness (different gender siblings or adult/children sharing a bedroom).
3. Family is paying 50% or more of income on housing costs
4. Priority given to families of three or more. Shared custody decrees are acceptable for documenting number of children in the family, which may not reside in the household 100% of the time.
5. No requirement to have children. Non-traditional families are considered (parent/child, siblings, and 3-generations), however, the family must demonstrate they have lived as a family unit for at least the past 12 months (at the same address as documented on tax returns, billing statements etc.)
6. Not required to be first time homebuyer if 2 years has passed since previous ownership (though reason for losing home will be considered, i.e. divorce, poor money management, and family medical crisis.)

### **ABILITY TO PAY MORTGAGE**

7. Income guidelines must be met (reviewed annually)
8. Debt to income ratio of 40% or less
9. No judgments or accounts in collection.
10. Demonstrated “rebuilt” credit history with 2 years since a bankruptcy, and one year since poor payments. (Poor credit history mandates credit counseling)
11. At least 6 months employment in present position, unless solid employment history compensates for recent job change.
12. Families who currently pay less for rent than anticipated mortgage must demonstrate throughout the incoming process their ability to sustain higher monthly payments by saving the difference each month in the joint escrow savings account earmarked for down payment and closing costs. Failure to do so can result in elimination from the program.

### **WILLINGNESS TO PARTNER**

13. Entire family commits to working for a home as demonstrated by all adult members participating in sweat equity, and homeownership training programs/requirements and accepting the terms of a Habitat sale (affordability controls such as deed restrictions.)
14. The family must be comfortable being identified as a Habitat family (during house dedication, annual walkathon and other publicity events) and to be seen as an asset to the community by maintaining the home & property in order to further the program for others.

## **ABILITY TO PAY MORTGAGE**

### **Calculating Eligible Income:**

Family income = only “Owner Applicants” -- those who will be legal owners (and listed on mortgage and note.)

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Consistent bonuses (reported for at least the past 3 years) will be considered reliable income and used to qualify (or disqualify if this amount pushes the family over the maximum allowed) the applicant.  
Percentage of total income derived from sources other than employment is irrelevant.

### **Regarding charged off debt:**

**All debt that has been charged off must be paid in full prior to considering application, except if applicant is currently making regular payments, which will pay off the debt within next six months. Exceptions will be considered for such things as: repayment of medical expenses, which are of such a scale as to be impossible to be paid off without declaring bankruptcy.**

Total debt is not considered as long as debt-to-income ratios are met.

## **NEED FOR HOUSING**

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**DEBT RATIOS work sheet**

**Current Housing Expense Ratio**

Rent \_\_\_\_\_

Utilities \_\_\_\_\_

Total Current Housing \_\_\_\_\_

/ gross monthly income = \_\_\_\_\_

**Projected Housing Expense Ratio**

Mortgage \_\_\_\_\_

Taxes \_\_\_\_\_

Insurance \_\_\_\_\_

Est. Utilities \_\_\_\_\_

Total Projected Housing \_\_\_\_\_

/ gross monthly income = \_\_\_\_\_

**\*\*The projected housing expense ratio should not exceed 30% of monthly gross income.**

**Long-Term Debt Ratio**

**Total Obligations**

**Current Overall Debt to Income**

Housing \_\_\_\_\_

Auto \_\_\_\_\_

Credit Cards \_\_\_\_\_

Child Support \_\_\_\_\_

Alimony \_\_\_\_\_

Reserve Fund (home repair) \_\_\_\_\_

Other \_\_\_\_\_

/ gross monthly income \_\_\_\_\_

**Projected Overall Debt to Income**

Housing \_\_\_\_\_

Auto \_\_\_\_\_

Credit Cards \_\_\_\_\_

Child Support \_\_\_\_\_

Alimony \_\_\_\_\_

Reserve Fund \_\_\_\_\_

Other \_\_\_\_\_

/ gross monthly income \_\_\_\_\_

**Preferred ratios are 30/38. Ratios exceeding the preferred ratios will be allowed if compensating factors exist (i.e. solid credit and/or employment history, etc.)**

**(See attached debt ratio calculation template sample)**

**Distribution List:**

Columbia Bank (Winsome Deer)

Lydia Ramos (Family Services Dept. Manager)

Jessica Ramos (F S Administrative Assistant)

Barbara Dunn (Executive Director)

Family Selection Committee Members