USDA United States Department of Agriculture Rural Development

MORTGAGE BANKERS ASSOCIATION OF PUERTO RICO

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9 de junio de 2016

SINGLE FAMILY HOUSING GUARANTEED LOANS

Guaranteed Loan Program Overview

- No down-payment required
- 30 year fixed interest rates
- Guaranteed Underwriting System (GUS)
- Automated Loan Closing System
- Mostly purchase transactions, 3-8% refinance
- 85% first time homebuyers
- 10% new construction
- Rural areas = up to 90% of the USA

Section 502 Guarantee Loans: Property Requirements

- Modest, decent, safe, and sanitary
- Owner occupied/primary residence only
- No purchase price limit
- New dwellings: Meet eligible construction code
- Condominiums are eligible

SINGLE FAMILY HOUSING GUARANTEED LOAN PROGRAM

Section 502 Guarantee Loans: Borrower Requirements

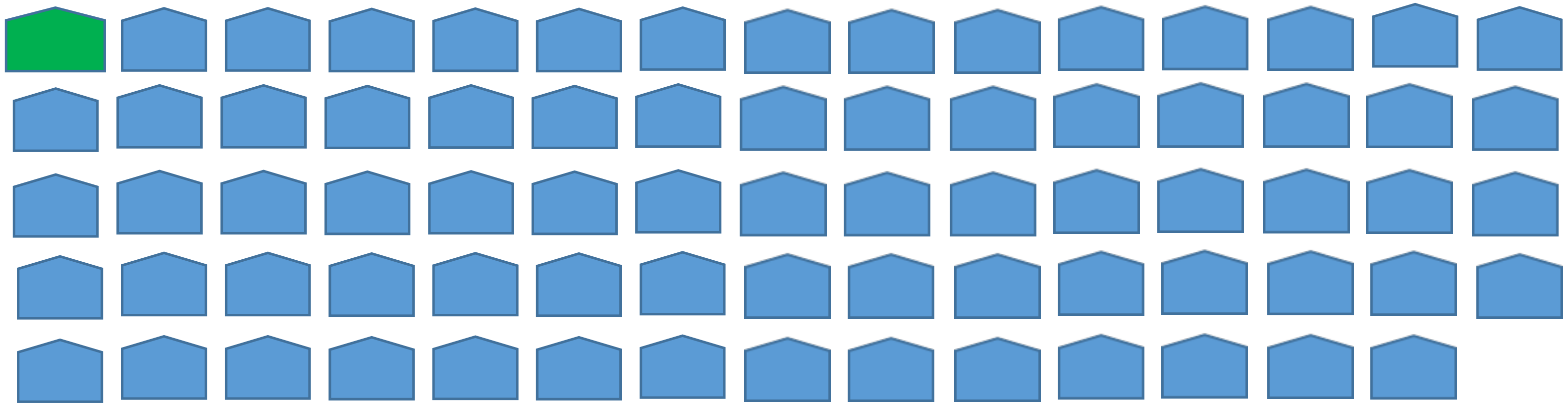
- U.S. Citizen or qualified alien
- Occupy home as primary residence only / no matter applicants have other property
- Meet adjusted annual income limitation for State/County where property is located
  - PR = $75,650.00 (1-4 members) & $99,850.00 (5-8 members)
- Ineligible for conventional financing
- May only retain one additional SFH dwelling (cannot be financed with a USDA loan)
- Demonstrate repayment ability and acceptable credit history

SINGLE FAMILY HOUSING — OVERVIEW

In the United States housing universe, not so big…

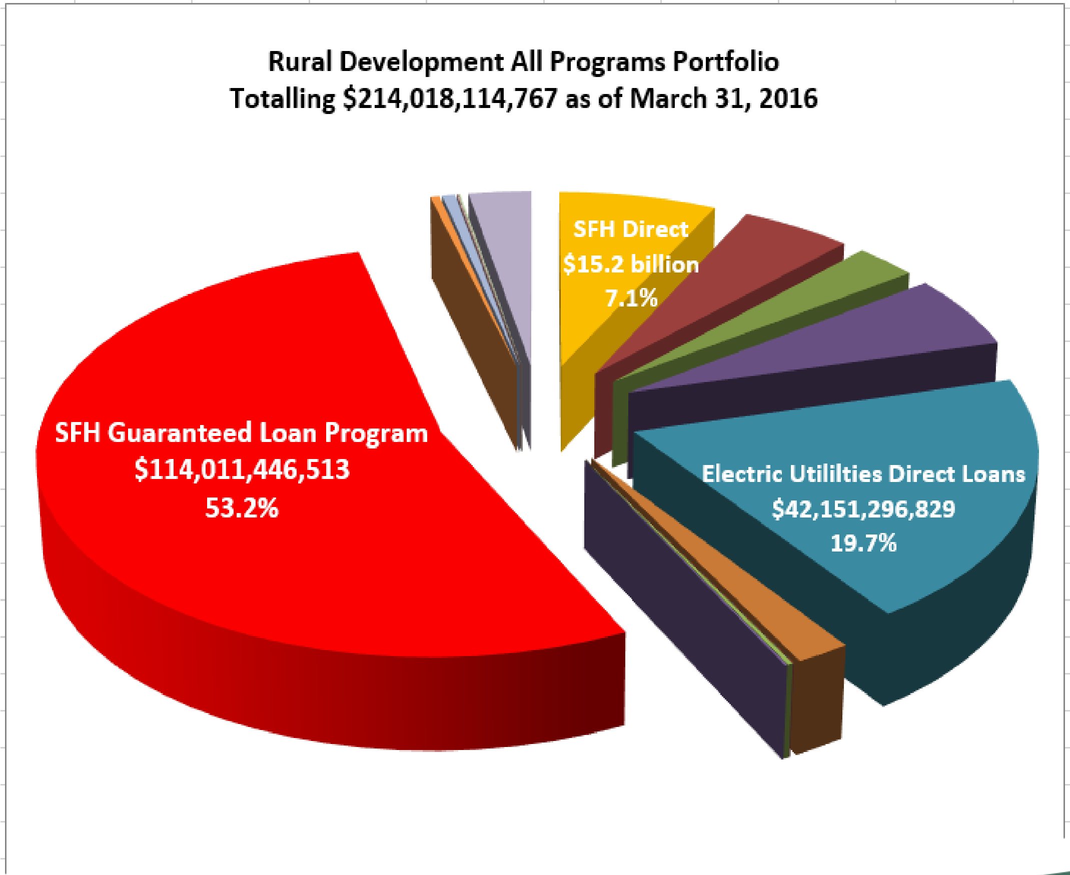
As of December 2015,

- SFH principal outstanding ≈ $128.9 billion
- US Single Family Mortgage Debt Outstanding ≈ $9.5 trillion



SINGLE FAMILY HOUSING — OVERVIEW

In the Rural Development universe…BIG!



With more than $129 billion in outstanding loans, the 502 Guaranteed and Direct loan totals are more than 60% of the entire Rural Development portfolio.

SINGLE FAMILY HOUSING GUARANTEED LOAN PROGRAM

What is rural? According to Section 520 of the Housing Act of 1949 (as amended)…

As used in this subchapter, the terms "rural" and "rural area" mean any open country, or any place, town, village, or city which is not (except in the cases of Pajaro, in the State of California, and Guadalupe, in the State of Arizona) part of or associated with an urban area and which

(1) has a population not in excess of 2,500 inhabitants, or

(2) has a population in excess of 2,500 but not in excess of 10,000 if it is rural in character, or

(3) has a population in excess of 10,000 but not in excess of 20,000, and
(A) is not contained within a standard metropolitan statistical area, and

(B) has a serious lack of mortgage credit for lower and moderate-income families, as determined by the Secretary and the Secretary of Housing and Urban Development. For purposes of this subchapter, any area classified as "rural" or a "rural area" prior to October 1, 1990, and determined not to be "rural" or a "rural area" as a result of data received from or after the **1990, 2000, or 2010 decennial census, and any area deemed to be a "rural area" for purposes of this title under any other provision of law at any time during the period beginning January 1, 2000, and ending December 31, 2010, shall continue to be so classified until the receipt of data from the decennial census in the year 2020**, if such area has a population in excess of 10,000 but not in excess of **35,000**, is rural in character, and has a serious lack of mortgage credit for lower and moderate-income families. Notwithstanding any other provision of this section, the city of Plainview, Texas, shall be considered a rural area for purposes of this subchapter, and the city of Altus, Oklahoma, shall be considered a rural area for purposes of this subchapter until the receipt of data from the decennial census in the year 2000.

SINGLE FAMILY HOUSING GUARANTEED LOAN PROGRAM

SFH Guaranteed Loans:
Section 502 of the Housing Act of 1949, as amended, and Cranston Gonzalez National Affordable Housing Act of 1990

Program provides homeownership opportunities to rural families with low and moderate incomes.

Avg. U.S. Borrower Income: $57,800
Avg. P.R. Borrower Income: $35,482
Avg. U.S. Loan Amount: $137,686
Avg. P.R. Loan Amount: $113,152

SINGLE FAMILY HOUSING GUARANTEED LOAN PROGRAM

New Regulation:

- 7 CFR 3555 replaced the old regulation on December 1, 2014
- New Handbook
- Expanded interest rate cap
- Construction to permanent financing aka “Single Close”
    - Promotes new construction in rural areas
    - Replace aging housing stock
- Delegated servicing decisions
    - Approval of loss mitigation actions
    - Approval of property disposition plans to lender

SINGLE FAMILY HOUSING GUARANTEED LOAN PROGRAM

Program Updates:

- "Streamlined-Assist Refinance" rule became effective on **June 2, 2016**. There is no requirement for an appraisal, a credit report, or the calculation of debt-to-income ratios. The only requirements are that the household be of low or moderate income, have been current on their first mortgage for the previous twelve months, and that the borrowers save at <u>least $50 per month when refinancing</u>.

- The new refinance option was piloted for three years before becoming a permanent option. Under the pilot, borrowers saved an average of $150 and up to $600 per month when refinancing. The refinanced loans preform better than purchase transactions in terms of delinquency and foreclosure rates. In Puerto Rico, which was part of the pilot, 13 loans were refinanced totaling $1,291,951.18

SINGLE FAMILY HOUSING GUARANTEED LOAN PROGRAM

Regulatory Workplan:

The agency has submitted a regulator workplan to the Office of Management and Budget for a proposed rule adding two new features:

- Delegated underwriting: Preferred lenders will be able to underwrite loans and issue themselves guarantees without involving agency staff. FHA and VA already have similar abilities.

- User fees: The agency will be able to charge lenders using the agency's Guaranteed Underwriting System user fees. The fees will be deployed toward IT needs in upgrading, improving, and developing single family housing automated underwriting systems. A $1 million investment is needed to develop the lender billing and reporting infrastructure.

SINGLE FAMILY HOUSING GUARANTEED LOAN PROGRAM

New: Construction-to-Permanent Loan aka “Single Close”

- **The guarantee is issued before construction begins.**
  - **Benefits lenders**
  - **Benefits homebuilders**
  - **Benefits borrowers**
  - **Benefits communities**

Single Close

Lender benefit: With the guarantee, the loan is immediately eligible for mortgage-backed securities = profit

Homebuilder benefit: No need to invest capital because the lender already funded the loan

Single Close

Borrower benefits:

- Construction project is fully funded – no worries about funding the construction.
- Interest reserve account can fund monthly construction loan payments, won’t have to pay both rent and loan during construction.
- Reduced maintenance versus existing homes: won’t need to replace roof, appliances, etc. for many years.

Single Close

Community benefits:

- Replace aging housing stock in rural areas.
- Local utilities experience new business.
- Local hardware stores experience new business.
- Landscapers, cabinet makers, local small food stores, etc.

Single Close

Lender Requirements:

- Demonstrated two or more years experience making and administering construction loans.
- Responsible for the approval, monitoring, and associated record keeping of builders.
- Execute a construction contract for each single close request.

Single Close

Homebuilder Requirements:

- Possess two or more years experience building single family houses.
- Be licensed as required by the state or local government body.
- Retain a minimum of $500,000 of commercial general liability insurance.
- Have a credit history free of judgements, collections, or liens related to previous construction projects.

Single Close

Eligible Loan Purposes:

- Acquire or payoff balance of land cost.
- Construction hard costs including the cost inside the contact as agreed by the borrower and builder and cost outside of contract to pay subcontractors for contributive work.
- Construction soft costs and other reasonable and customary fees.

Single Close

Eligible Loan Purposes:

- Interest Reserve: Interest is paid monthly either by the borrower or from the interest reserve.
- Contingency Reserve: A 10% contingency reserve to cover unplanned expenses.
- Unused funds are applied to the principal balance at final modification.

Preguntas?

Muchas gracias!