

viii. Approvable Ratio Requirements (Manual)

The maximum Total Mortgage Payment to Effective Income Ratio (PTI) and Total Fixed Payments to Effective Income Ratio, or DTI, applicable to manually underwritten Mortgages are summarized in the matrix below.

The qualifying ratios for Borrowers with no credit score are computed using income only from Borrowers occupying the Property and obligated on the Mortgage. Non-occupant co-Borrower income may not be included.

Lowest Minimum Decision Credit Score	Maximum Qualifying Ratios (%)	Acceptable Compensating Factors
500-579 or No Credit Score	31/43	Not applicable. Borrowers with Minimum Decision Credit Scores below 580, or with no credit score may not exceed 31/43 ratios. Energy Efficient Homes may have stretch ratios of 33/45.
580 and above	31/43	No compensating factors required. Energy Efficient Homes may have stretch ratios of 33/45.
580 and above	37/47	One of the following: verified and documented cash Reserves; minimal increase in housing payment; or residual income.
580 and above	40/40	No discretionary debt.
580 and above	40/50	Two of the following: verified and documented cash Reserves; minimal increase in housing payment; significant additional income not reflected in Effective Income; and/or residual income.

ix. Documenting Acceptable Compensating Factors (Manual)

The following describes the compensating factors and required documentation that may be used to justify approval of manually underwritten Mortgages with qualifying ratios as described above.

Verified and Documented Cash Reserves Verified and documented cash Reserves may be cited as a compensating factor subject to the following requirements.

Reserves are equal to or exceed three total monthly Mortgage Payments (one and two units); or

Reserves are equal to or exceed six total monthly Mortgage Payments (three and four units).

Reserves are calculated as the Borrower's total assets as described in [Asset Requirements](#) less:

the total funds required to close the Mortgage;

gifts;

borrowed funds; and

cash received at closing in a cash-out refinance transaction or incidental cash received at closing in the mortgage transaction.

(C) Minimal Increase in Housing Payment A minimal increase in housing payment may be cited as a compensating factor subject to the following requirements:

the new total monthly Mortgage Payment does not exceed the current total monthly housing payment by more than \$100 or 5 percent, whichever is less; and

there is a documented 12 month housing payment history with no more than one 30 Day late payment. In cash-out transactions all payments on the Mortgage being refinanced must have been made within the month due for the previous 12 months.

If the Borrower has no current housing payment Mortgagees may not cite this compensating factor.

The Current Total Monthly Housing Payment refers to the Borrower's current total Mortgage Payment or current total monthly rent obligation.

(D) No Discretionary Debt No discretionary debt may be cited as a compensating factor subject to the following requirements:

the Borrower's housing payment is the only open account with an outstanding balance that is not paid off monthly;

the credit report shows established credit lines in the Borrower's name open for at least six months; and

the Borrower can document that these accounts have been paid off in full monthly for at least the past six months.

Borrowers who have no established credit other than their housing payment, no other credit lines in their own name open for at least six months, or who cannot document that all other accounts are paid off in full monthly for at least the past six months, do not qualify under this criterion. Credit lines not in the Borrower's name but for which they are an authorized user do not qualify under this criterion.

(E) Significant Additional Income Not Reflected in Effective Income Additional income from Overtime, Bonuses, Part-Time or Seasonal Employment that is not reflected in Effective Income can be cited as a compensating factor subject to the following requirements:

the Mortgagee must verify and document that the Borrower has received this income for at least one year, and it will likely continue; and

the income, if it were included in gross Effective Income, is sufficient to reduce the qualifying ratios to not more than 37/47.

Income from non-borrowing spouses or other parties not obligated for the Mortgage may not be counted under this criterion.

This compensating factor may be cited only in conjunction with another compensating factor when qualifying ratios exceed 37/47 but are not more than 40/50.

(F) Residual Income Residual income may be cited as a compensating factor provided it can be documented and it is at least equal to the applicable amounts for household size and geographic region found on the Table of Residual Incomes By Region found in the Department of Veterans Affairs (VA) [Lenders Handbook - VA Pamphlet 26-7](#), Chapter 4.9 b and e.

(1) Calculating Residual Income Residual income is calculated as total Effective Income of all occupying Borrowers less:

state income taxes;

federal income taxes;

municipal or other income taxes;

retirement or Social Security;

proposed total Mortgage Payment;

estimated maintenance and utilities;

job related expenses (e.g., child care); and

the amount of the Gross Up of any Non-Taxable Income.

If available, Mortgagees must use federal and state tax returns from the most recent tax year to document state and local taxes, retirement, Social Security and Medicare. If tax returns are not available, Mortgagees may rely upon current pay stubs.

For estimated maintenance and utilities, Mortgagees must multiply the Gross Living Area of the Property by the maintenance and utility factor found in the [Lenders Handbook - VA Pamphlet 26-7](#).

(2) Using Residual Income as a Compensating Factor To use residual income as a compensating factor, the Mortgagee must count all members of the household of the occupying Borrower without regard to the nature of their relationship and without regard to whether they are joining on title or the Note to determine "family size." Exception The Mortgagee may omit any individuals from "family size" who are fully supported from a source of verified income which is not included in Effective Income in the mortgage analysis. These individuals must voluntarily provide sufficient documentation to verify their income to qualify for this exception. From the table provided in [Lenders Handbook - VA Pamphlet 26-7](#), select the applicable mortgage amount, region and household size. If residual income equals or exceeds the corresponding amount on the table, it may be cited as a compensating factor.