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## GRH PROGRAM POINTS

- ◆ *Guarantee Fee* 2% of *Guaranteed* loan amount. May be financed in loan.
- ◆ *Site* Site Value cannot exceed 30% of market value
- ◆ *Rural area* See *Non-Rural Maps*
- ◆ *Maximum Loan to Value* 100% of appraised value
- ◆ *Maximum Loan* No Limit
- ◆ *Loan Terms* 30 Years Fixed rate
- ◆ *Maximum Interest Rate* Higher of the published rate for VA first mortgage loans with 0 discount points and zero origination or the current FNMA 30 year rate with a 90 day delivery plus 60 basis points.
  
- ◆ *Qualifying ratios* 29/41 - may exceed with compensating factors
- ◆ *Cash Reserves* None Required
- ◆ *Length of Employment* No Minimum, must be adequate and dependable
- ◆ *Limit on Seller contribution* None

## UNDERWRITING POINTS

- ◆ *Verification of Employment* Good for 120 days
- ◆ *Child Support* Project for 12 months
- ◆ *Overtime* Project for 12 months
- ◆ *Part time Employment* Project for the next 12 months
- ◆ *Self Employment* Project for next 12 months
- ◆ *Credit History* Bankruptcy must be discharged for 36 months (See page 37)
- ◆ *Inspections* 3 required or Final inspection with approved 10 year warranty
- ◆ *MOTI* Debts not required to be included in ratios if debts will be paid in 6 months with no impact on repayment ability.
  
- ◆ *Forms Required* Standard FHA or Fannie Mae
- ◆ *Closing Costs* Loan may include all Closing Cost,(except discount points) *Guarantee Fee* and *Pre-pays* (to establish escrow) if appraised value is not exceeded.
  
- ◆ *Underwriting* Approved Lender underwrites credit
- ◆ *Assumability* Assumable with qualifications, no release of liability

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## DEFINITIONS

**Applicant:**

Individual applying for loan

**Lender Record Change:**

RD Form 1980-11 advises Rural Development of any changes made by the lender to sell the loan or change servicers.

**Borrower:**

All parties liable on the loan.

**Conditional Commitment:**

RD Form 1980-18. RD's notice to Lender that the documentation submitted is approved subject to completion of all conditions and requirements set forth in the Conditional Commitment.

**Co-Signer:**

A Co-Signer will not be allowed under the requirements of this loan program.

**Development Standard:**

The current edition of any model building, plumbing, mechanical, and electrical codes as reflected in the Voluntary National Model Building Codes listed on Exhibit E.

**Disabled Person:**

A person who is unable by to engage in any gainful activity by reason of any medically determined physical or mental impairment which is expected to last not less than 12 months, or is expected to result in death.

A disabled person also includes a person with a developmental disability. A developmental disability means a severe, chronic disability which:

- (a) is attributable to a mental or physical impairment (or both).
- (b) is manifested before the person attains age 22
- (c) is likely to continue indefinitely
- (d) results in substantial functional limitations in 1 or more of the following areas of major life activity:

1. self-care
2. receptive and expressive language
3. learning
4. mobility
5. self-direction
6. capacity for independent living
7. economic self-sufficiency; and

(e) reflects the need for a combination and sequence of special care, treatment, or other services which are lifelong or of an extended duration and are individually planned and coordinated.

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**Displaced Homemaker:**

An adult who has not worked full time (2,080 hours annually) in the labor force for a number of years but has worked primarily without remuneration to care for the home and family; and is unemployed or under employed and is experiencing difficulty in obtaining or upgrading employment.

**Elderly Family:**

(a) a person 62 years or older who is the head, spouse, or sole member of the household, or handicapped or disabled and is the Borrower or Co-borrower.

(b) two or more unrelated elderly (age 62 or over) disabled or handicapped individuals living together, one of whom is the Borrower or Co-Borrower; or

(c) the surviving spouse in a family where the Borrower or Co-Borrower was at least 62 years old, handicapped or disabled shall continue to be classified as an "elderly family" for determining adjusted income even though the surviving member(s) may not meet the definition of elderly family on their own, provided:

1. they occupied the dwelling with the deceased family member at the time of his/her death
2. if one of the surviving members was the spouse of the deceased family member, the surviving family shall be classified as elderly family until the remarriage of the spouse; and
3. at the time of death, the dwelling of the deceased family member was financed under Title V of the Housing Act of 1949, as amended.

**Eligible Lender:**

A lender meeting the criteria outline in Rural Developments 1980.309 and who has requested and received Rural Development approval for participation in the program.

**Extended Family:**

A family unit composed of adult relatives who live together with other members of the household for reasons of physical dependency, economics, and/or social custom, who, under other circumstances could maintain separate households. (Example parents living with adult children)

**Finance Office:**

The office which maintains RURAL DEVELOPMENT's financial records and is located at 1520 Market Street, St Louis, Missouri 63103.

**First-Time Homebuyer**

An individual (and whose spouse) that has had no present ownership interest in a principal residence during the prior three years. This includes a displaced homemaker and single parents even though they might have owned, or resided in, a dwelling with a spouse.

**Guaranty Fee:** The lender pays Rural Development a one time fee equal to 2 percent of the principal amount of the loan. This Guarantee may be passed to the borrower.

**Guaranteed Loan:**

A loan made, held, and serviced by a lender for which Rural Development has entered into an agreement with the Lender.

**Handicapped Person:**

A person having a physical or mental impairment which:

- (a) is expected to be of long/or indefinite duration
- (b) substantially impeded his/her ability to live independently
- (c) is of such a nature that the person's ability to live independently could be improved by more suitable living conditions.

**Household or Family:**

The Borrower, Co-Borrower, and all other persons who will make the dwelling their primary residence for all or part of the next 12 months. The temporary absence of a child from the home due to placement in foster care shall not be considered when determining family composition and size. Foster children or live in aides are not counted as members of the household.

**Lender:**

The organization making, holding, and servicing the loan guaranteed by Rural Development.

**Lender Agreement for Single Family Guaranteed Loans:**

The signed master agreement (Rural Development Form 1980-16) between Rural Development and the Lender setting forth the Lender's loan responsibilities once the Note Guarantee is issued.

**Loan Note Guarantee and Assignment Guarantee Agreement:**

The signed Commitment (Rural Development Form 1980-17) issued by Rural Development setting forth the terms and conditions of the Guarantee.

**Manufactured Home:**

A structure built to the Federal Manufactured Home Construction and Safety Standards and Rural Development thermal requirements.

**Minor:**

A person under the age of 18. Neither the Borrower or Co-Borrower may be counted as a minor. Foster children in the home are not counted as minors for determination of annual or adjusted income.

**Modest House:**

Dwelling must be structurally sound, functionally adequate and in good repair. Site value cannot exceed 30% of total property value. Loans will not be guaranteed on dwellings with an in-ground swimming pool or on income-producing property.



**Net Family Assets:**

The value in real property, savings, IRA's, demand deposits, and the market value of stocks, bonds and other forms of capital investments. Net family assets do not include:

- (a) Interests in Indian Land
- (b) The value of the subject dwelling and adequate site
- (c) Cash on hand which will be used to reduce the amount of the loan
- (d) The value of necessary items of personal property such as furniture and automobile(s), and the debts against them.
- (e) Assets that are part of a business, trade or farming operation in the case of any household member actively engaged in such operation.
- (f) Value of an established trust fund and the trust is not revocable by, or under the control of any household member.

The value of any business or household assets disposed of by a household member for less than fair market value (including disposition in trust, but not in a foreclosure or bankruptcy sale) during the two (2) years preceding the application date in excess of the consideration received. In the case of separation or divorce, the disposition shall not be considered to be less than fair market value if the household member receives important consideration not measurable in dollar terms.

**Packager:**

A builder, developer, real estate agent, or other party who obtains and presents one or more completed applications for guaranteed rural home loans to a lender.

**Rural Area:**

Areas of 10,000 population or less. **Note:** Certain areas between 10,000 and 25,000 population may be eligible. Please see Non-Rural Area Maps.

**Veteran:**

A person discharged or released from active military duty of the United States Army, Navy, Air Force, Marine Corps or Coast Guard under conditions other than dishonorable including "clemency discharge", and who served on active duty:

- (a) from April 6, 1917 through March 31, 1921
- (b) from December 7, 1941 through December 31, 1946
- (c) From June 27, 1950 through January 31, 1955
- (d) Or served for more than 180 days, any part of which occurred after January 31, 1955, but before May 7, 1975.

### **ALLOWABLE LOAN PURPOSES:**

The principal purpose of Rural Development Guaranteed Rural Housing Loans is the acquisition of a new or existing dwelling to be used as the primary residence in a designated rural area.

The loan may be used to:

1. Purchase a new/existing dwelling
2. Purchase and improve an existing dwelling
3. Provide related facilities when the purchase is an existing dwelling.

### **On the purchase of a new or existing dwelling the loan may also include:**

1. The Fee Simple purchase of a site on which improvements are or will be located, if the applicant does not own an adequate site.
2. Provide necessary related facilities such as a garage, storage shed, walks, driveway, and has water and/or sewage facilities including reasonable connection fees for utilities which the buyer pay.
3. Provide special design features or equipment when necessary for handicapped members of household.
4. The purchase and installation of necessary appliances, approved energy saving measures and approved furnaces and space heaters which use a common economical and dependable fuel.
5. Payment of incidental expenses such as fees for tax monitoring, architectural, appraisal, surveying, environmental, and other technical services.
6. The cost of establishing escrow accounts for taxes and insurance premiums.
7. Payment of legal services for title clearance and loan closing

### **PROHIBITED LOAN PURPOSES:**

1. Payment of construction draws
2. The purchase of furniture or other personal property except for allowable essential equipment and materials (washer, dryer, refrigerator and stove).
3. Refinancing Rural Development debts owed to the Lender other than construction/development, financing incurred in conjunction with the proposed loan), debts on a building site without a building, or debts on a manufactured home.
4. Purchase or improvement of income producing land, or buildings to be used for income producing purposes, or buildings considered not essential for Rural Home purposes, or to buy or build buildings which are in part designed to accommodate a business or income producing enterprise.
5. Payment of fees, charges, or commissions, such as a finder's fee for packaging the application or placement fees for the referral of a prospective borrower to Rural Development.
6. Improving the entry of a homestead entryman or desert entryman prior to receipt of patent.
7. Purchase a dwelling with an in-ground swimming pool.

## **NON-RURAL AREAS**

Rural Development guidelines reflect thirteen (13) counties that have non rural areas. Rural Development loans cannot be made in these areas. These thirteen counties with non-rural areas are:

- |             |               |             |                |
|-------------|---------------|-------------|----------------|
| 1. DeSoto   | 5. Jackson    | 9. Lowndes  | 13. Washington |
| 2. Forrest  | 6. Lamar      | 10. Madison |                |
| 3. Harrison | 7. Lauderdale | 11. Rankin  |                |
| 4. Hinds    | 8. Lee        | 12. Warren  |                |

Please refer to the County Maps in this manual that indicate the location of the non-rural areas.

If you are not sure if your subject area is in a non-rural section, contact your local Rural Development office to determine the eligibility of the subject property.

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## INCOME ELIGIBILITY:

The income calculation will include all current verified income received by the spouse and all adult members of the household.

If the spouse or any adult member of the household is not presently employed but has a **recent** history of employment, then that person's income will be considered. **Unless**, the applicant and the person involved sign a statement that the individual is not presently employed and does not intend to resume employment in the foreseeable future.

Consideration should be given to whether the income is dependable and the applicant's history of such income over the past 24 months. Also the duration of the applicant's income should be considered.

## THE FOLLOWING ARE TO BE INCLUDED IN ANNUAL FAMILY INCOME:

1. Gross income from wages, salaries, overtime pay, commissions, fees, tips, bonuses and any other compensation for personal services of all adult members of the household.
2. The **net** income for self employed.  
The earnings must be supported by current documentation of income and expenses.  
Farm and Non-farm losses are considered "zero" in determining annual income.
3. Interest, dividends, and other net income from real or personal property.
4. The **full** amounts of periodic payments from:
  - A. Social Security benefits
  - B. Annuities
  - C. Insurance policies
  - D. Retirement funds
  - E. Pensions
  - F. Disability or death benefits
  - G. Other types of periodic income
5. Payments in lieu of earnings such as:
  - A. Unemployment Compensation
  - B. Disability Compensation
  - C. Severance pay
  - D. Any other types of payment in lieu of earnings.
6. Public Assistance Payments
7. Periodic allowances such as:
  - A. Alimony
  - B. Child Support
  - C. Recurring monetary gifts or contributions from individuals outside of household.

**NOTE: This type of income must be reported and counted as family income.**
8. Subsistence amounts for educational grants, Scholarships, or VA benefits.

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9. All military service income, both regular and special pay, including the allowances of a member of the Armed Forces who is the Borrower or Spouse.  
**EXCEPTION: Special pay for military personnel exposed to hostile fire.**
  10. Income of a spouse unless:
    - A. Documentation is provided that the spouse lived elsewhere for at least 3 months for reasons other than work or military service.
    - B. Court proceedings for divorce or separation have been initiated.

**THE FOLLOWING ARE NOT CONSIDERED AS ANNUAL FAMILY INCOME:**

1. Income from the employment of children under 18 years of age, including the employment of foster children.
2. Allotment provided to the household under the Food Stamp Act of 1977.
3. Payments for the care of foster children.
4. Casual, sporadic, or irregular cash gifts.
5. Lump sum additions such as:
  - A. Inheritances
  - B. Capital gains
  - C. Insurance payments included under health, accident, hazard or workmen's compensation policies, settlements for personal or property losses.

**EXCEPTIONS: Exceptions include payments made in lieu of earnings such as employment and disability compensation, worker's compensation and severance pay.**

6. Reimbursement for medical expenses
7. Student loans and education scholarships for tuition, fees, books and equipment.

**NOTE:** Any scholarship or Veteran Educational assistance funds not used for the above purposes and are available for subsistence are to be considered as income.

1. Hazardous duty pay to an applicant or spouse who is serving in the military away from home and exposed to hostile fire.
2. Any funds that may be used as the basis for denying or reducing Federal Financial Assistance or benefits, such as:
  - Payments to volunteers under the Domestic Volunteer Service Act of 1973 including but not limited to:
    - National Volunteer Antipoverty Programs which includes Vista, Peace Corps, Service Learning programs and the Special Volunteer Programs.

- National Older American Volunteer Programs for persons age 60 or over. These include:
  - A. Retired Senior Volunteer Programs
  - B. Foster Grandparent Program
  - C. Older American Community Services Programs
  - D. National Volunteer Programs to assist Small Business and promote volunteer services to persons with business experience
  - E. Service Corps of Retired Executives and Active Corps of Executives.
  
- Income of live-in-aids who are not relatives or members of the household will not be counted in calculating annual income or determining repayment ability.

The applicant must have sufficient income to meet all obligations and the adjusted income may not exceed the income limits for the county in which the property is located.  
(See Exhibit-C 1980-D in the manual)

**OTHER RESOURCES:**

The applicant lacks sufficient financial resources to obtain a conventional loan. (This is generally defined as a 80/20 conventional type loan)

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## INCOME VERIFICATION:

1. Standard FNMA or HUD VOE's may be used to verify employment and income. The lender should obtain copies of the applicants most recent paycheck stubs and compare them to the VOE for consistency. Verifications must be updated when 120 days old. 180 days for proposed construction.
2. Alimony or Child Support payments must be verified by obtaining a copy of the divorce decree and property settlement indicating the amount of the alimony or child support payments. If the applicant receives less than the required amount the lender must request verification from the agency through which payments are received of the dates and amount paid. (When it is not possible to verify income through third parties, the lender may accept a notarized statement from the applicant stating the effort to collect and the amount awarded, and the amounts and dates of payment received during the previous 12 months.)
3. Applicants deriving their income from a farming or business enterprise must provide current documentation of expenses and income of the operation. Tax returns for the previous year must be provided.
4. Social Security, pension, and disability income may be verified by obtaining a copy of the most recent award or benefit letter prepared and signed by the authorizing agent. This verification will be valid for one year from the date of the award or benefit. Verification of disability or handicap must be on RD Form 1944-4 in cases where state review or Social Security records are not available. Receipt of veteran's benefits for disability, whether or not service oriented does not automatically establish disability.

## ACCEPTABLE ALTERNATIVE DOCUMENTATION

The following documentation is deemed acceptable for verifying the employment income of non-self-employed loan applicants:

Form RD 1910-5, "Request for Verification of Employment," (or the equivalent HUD/Fannie Mae form), and the most recent paycheck stub.

or

Paycheck stubs or payroll earnings statements covering the most recent 30-day period, and W-2 tax forms for the previous 2 tax years, and a telephone verification of the applicant's current employment.

Regardless of the type of documentation used by the Lender to make its lending decision, the documents must:

- Be clear and legible,
- Be free of any indications that changes have been made, and
- Provide consistent information.

In all cases, the Lender remains responsible for the sufficiency, integrity and accuracy of the underwriting documents. As part of their compliance review monitoring processes and quality control review, Agency staff should review selected applications to ensure that Lenders are obtaining sufficient documentation to accurately calculate applicant income. Employment income verification documents used by the Lender must meet the following requirements.

The **Verification of Employment form** must be:

- Signed by the applicant or accompanied by an authorization for a release of information form signed by the applicant.
- Sent directly to the employer by the Lender.
- Completed by the employer and returned to the Lender directly without passing through the hands of a third party or the applicant.
- Completed within 120 days (180 days for proposed new construction) prior to the time Form RD 1980-18, Conditional Commitment for Single Family Housing Loan Guarantee, is issued.

The **paycheck stubs or payroll earnings statements**:

- must be "originals". (The original paycheck stubs or payroll earnings statements may be returned to the applicant after the Lender has made clear, certified true copies for the Lender's mortgage file. Copies provided by any other source, such as the real estate agent, are unacceptable.)
- must be the "most recent" as of the date the initial loan application is made.
- must clearly identify the applicant as the employee by name and/or social security number.
- must show the applicant's gross earnings for that pay period and year-to-date.
- must be computer-generated or typed.

The **W-2 forms**:

- Must be the original employee copies provided by the employer. (The original W-2 forms may be returned to the applicant after the Lender has made clear, certified true copies for the Lender's mortgage file. Copies provided by any other source, such as the real estate agent, are unacceptable.)
- Must cover the 2 most recent tax years.
- Must not contain any alterations, erasures, or corrections.
- Must be complete.
- Must be computer-generated or typed.

The **telephone verification** must be substantiated by a written document that shows:

- Date of contact (must be within 120 days of closing).
- Employer/Company name, address and phone number.
- Employer's contact person and title.
- Applicant's name, date of employment and present position.
- Probability of continued employment.
- Amount of current base pay.
- Amount of other income such as overtime, bonus, commissions, etc..
- Likelihood that the level of current earnings will continue.
- Name and Title of Lender's employee that contacted the employer.

**INCOME CALCULATION WORKSHEET**

Page 1 of 2

\_\_\_\_\_  
**Borrower**

\_\_\_\_\_  
**Co-Borrower**

\_\_\_\_\_  
**County**

\_\_\_\_\_  
**Income Limit**

**1. MONTHLY EMPLOYMENT INCOME**

Primary Wage Earner:

Base Pay: \_\_\_\_\_

Overtime: \_\_\_\_\_

Bonus: \_\_\_\_\_

Secondary Wage Earner:

Base Pay: \_\_\_\_\_

Overtime: \_\_\_\_\_

Bonus: \_\_\_\_\_

Subtotal: \_\_\_\_\_

**2. OTHER INCOME:**

Part-time: \_\_\_\_\_

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

Alimony: \_\_\_\_\_

Unemployment: \_\_\_\_\_

Social Security \_\_\_\_\_

Tips: \_\_\_\_\_

Net Rental Income \_\_\_\_\_

Dividend Income \_\_\_\_\_

Interest Income \_\_\_\_\_

Royalties \_\_\_\_\_

Pensions: \_\_\_\_\_

Estates/Trusts \_\_\_\_\_

VA Compensation \_\_\_\_\_

Public Assist> \_\_\_\_\_

COLA \_\_\_\_\_

Subtotal: \_\_\_\_\_

**3. SELF EMPLOYMENT INCOME**

Schedule C, F,  
or E of form 1040 \_\_\_\_\_

Add Depreciation \_\_\_\_\_

Subtotal: \_\_\_\_\_

**4-A. TOTAL MONTHLY FAMILY INCOME**

Total: \_\_\_\_\_

**4-B. Line 4-A x 12 = \_\_\_\_\_ TOTAL ANNUAL FAMILY INCOME**

5. IF THE TOTAL INCOME SHOWN ON LINE 4-B EXCEEDS THE COUNTY INCOME LIMIT OF \_\_\_\_\_ COMPLETE THE FOLLOWING ADJUSTMENTS:

**Rural Development Income Adjustments**

A. Annual Income: \_\_\_\_\_

B. Number of Children under 18 x \$480.= \_\_\_\_\_

C. Number of Family members over 18  
who are disabled, handicapped or  
full time students X \$480. = \_\_\_\_\_

D. Deduct \$400 per elderly family  
= \_\_\_\_\_

E. Deduct Child care if required for  
gainful employment or further  
education of family members. \_\_\_\_\_

F. Medical Deductions \_\_\_\_\_

\_\_\_\_\_

**Adjusted Family Income**

NOTE: If the following expenses exceed 3% of the gross annual income, you may deduct the difference:

1. The cost of reasonable attendant care and auxiliary apparatus necessary for employment of any member of household.
2. Medical expenses for an elderly family member (if applicant or co-applicant not covered by insurance) that will be incurred during the 12 month period.

**INCOME CALCULATIONS ARE BASED ON CURRENT INCOME.**

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## RURAL DEVELOPMENT CREDIT CRITERIA

The following are all indicators of an unacceptable credit history **unless** the cause of the problem was beyond the applicants control.

1. More than one payment 30 days past due within the past 12 months.
2. A foreclosure within the last 36 months.
3. Outstanding tax liens or delinquent government debts with no satisfactory arrangements for payment.
4. A judgment that is currently outstanding or has been outstanding within the past 12 months.
5. Two or more rent payments paid 30 days or more late within the last 3 years.
6. Accounts which have been converted to collections within the last 12 months (include utilities, doctors, hospital bills, etc.).
7. Outstanding collection accounts with no arrangements made for payments.
8. Non-Rural Development debts written off in the last 36 months.

The following "**will not**" indicate an unacceptable credit history.

1. "No history" of credit transactions by the applicant
2. Bankruptcy that has been discharged more than 36 months.
3. A satisfied judgment or foreclosure with no loss of security which was completed more than 12 months **before** the date of application.

**NOTE:** It is not the policy of Rural Development to issue a Conditional Commitment if the applicant is currently under the jurisdiction of a Bankruptcy Court.

Instances of unsatisfactory credit history **may be waived** by the underwriter, provided the applicant provides documentation that:

1. Circumstances were of a temporary nature, beyond the applicants control and have been removed.
2. The adverse action or delinquency was the result of a refusal to make full payment because of defective goods or services, or as a result of some other justifiable dispute related to the goods or services.

**NOTE:** The underwriter will provide a waiver to Rural Development by completing item number 5 on Form 1980-21, "Request for Single Family Housing Loan Guarantee".

### NON TRADITIONAL CREDIT

Lenders may use the industry recognized credit sources such as rental payment, utility payments, local documented credit, etc.

### CREDIT HISTORY VERIFICATION

RMCRs, MMCRs and NTMR that meet the standards of Fannie Mae, Freddie Mac, Housing and Urban Development (HUD) and Veteran Affairs (VA) are acceptable for RHS purposes. In the case of MMCRs, tri-merged are preferred.

**See RD AN 3587(1980-D) for a complete description of acceptable credit verification at [http://rdinit.usda.gov/regs/an\\_list.html](http://rdinit.usda.gov/regs/an_list.html)**

Other Federal Debt:

The lender will check HUD's Credit Alert Interactive Voice Response System (CAIVRS) to determine whether the applicant is listed as delinquent on a Federal Debt. The lender must document the call in the applicant's loan file. (See the following pages for the proper procedures to access the USDA CAIVRS)

**OTHER ELIGIBILITY CRITERIA:**

- A. The applicant must qualify as one of the following:
1. Does not own a dwelling within a local commuting area, or owns a dwelling that is structurally unsound, and functionally inadequate,
- B. Be without sufficient resources to provide the necessary housing or related facilities, and be unable to secure the necessary credit from other sources upon terms and conditions which the applicant could reasonably be expected to fulfill.
- C. Be a natural person who resides:
1. A citizen in any of the 50 states, the Commonwealth of Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, the Commonwealth of Northern Marianas, Federated States of Micronesia, and the Republic of the Marshall Islands and Palau, **or**
  2. Or a non-citizen who resides in one of the above areas after being **legally** admitted to the U.S. for permanent residence or on indefinite parole.

**Aliens are required to present documentation of their status. If the authenticity of the documentation is questioned, the Rural Development official will verify the information.**

- D. Possess the legal capacity to incur the obligation, reached the age of majority or had the minority status removed by action of the court.
- E. Have the potential ability to occupy the home on a permanent basis.

**Because of the probability of their being transferred or moving after graduation, active duty military personnel and full time students will not be granted a loan unless:**

1. If on active duty, the applicant will be discharged at an early date (usually within one year). The family must continue to occupy the property if the applicant is transferred to another duty station before discharge, and
2. The applicant intends to make the property a permanent residence and there are reasonable prospects that employment will be available in the area after graduation or discharge, and
3. An adult member of the household will be available to make inspections if the home is being constructed.

**Interest Rate**

Schedule provided by the investor. Limited to the Fannie Mae 90 day yield (actual-actual) for 30 year conventional fixed rate loans plus 60 basis points. **or**, the lenders posted VA rate with no discount, whichever is higher.

**Guarantee Fee**

Two percent of the final loan amount. The fee may be included in the loan if the appraisal is equal or greater than the final loan amount. The guarantee fee is 2% of the final loan amount. The fee is submitted with the final package to RHS after the loan closing.

**Maximum Loan Amount**

The appraised value, or amount the applicant can repay, whichever is less. The first mortgage guaranteed loan cannot exceed the appraised value under any circumstances.

**Seller Assistance**

No RHS limit

## DOCUMENT PAYMENT SHOCK

Payment shock should be documented in the file. Do not allow additional risk layering without strong documented compensating factors when the payment shock is over 100% or there is no history of housing expense.

Stricter underwriting standards apply in cases when the payment shock is greater than 100%.

**For a comprehensive guide, see AN 3553 (1980-D) at:**

[http://rdinit.usda.gov/regs/an\\_list.html](http://rdinit.usda.gov/regs/an_list.html)

Formula to compute Payment shock is as follows:  $(PITI \div \text{Previous Housing expense}) - 1$

### Examples of Payment Shock

1. Borrower's PITI is \$597.50  
 Borrower's former rent is \$425.00  
 $(\$597.50 \div \$425.00 = 1.41) - 1 = .41$  or 41%  
 Payment Shock is **not** a factor
  
2. Borrower's PITI is \$675.00  
 Borrower's former rent is \$325.00  
 $(\$675.00 \div \$325.00 = 2.08) - 1 = 1.08$  or 108%  
 Payment Shock is a factor

### Ratios

29% Housing, 41% TD. Underwriter may request a waiver by providing the written documentation to RHS. Underwriters may request the waiver prior to submitting a full application package, instead of approving the loan subject to RHS approval.

For a comprehensive list of compensating factors including a high FICO score, please see RD AN No. 3582 (1980-D) at [http://rdinit.usda.gov/regs/an\\_list.html](http://rdinit.usda.gov/regs/an_list.html)

- A low back ratio, by itself does not compensate for a high front ratio.
- There is no maximum amount the ratios may be exceeded. (This depends on the strength of the compensating factors).
- Non-taxable income may be grossed-up 20%
- All debts with over 6 months remaining payments are counted. Shorter term debts should be counted if they are reoccurring and have an impact on the repayment ability.

### 2/1 Buydowns

Must be approved by the local RHS office. Lenders must show the applicants income will increase at the end of the first and second year to offset the increased payments, not including normal cost of living raises. The projected reduced debt to offset the increased rate is justified only if the documentation reflects the debt will not occur again.

**PROCESSING EXISTING DWELLINGS:**

**NEW**

Loan may be up to 100 percent of the appraised value.

The basic objective of the GRH Program is to assist eligible rural households in obtaining adequate, decent, safe and sanitary homes. To this end, an existing dwelling must be inspected to determine that the dwelling meets the current requirements of:

- HUD Handbook 4150.2, Valuation Analysis for Home Mortgage Insurance for Single Family One- to Four-Unit Dwellings (Appraisal Handbook), and
- HUD Handbook 4905.1, Requirements for Existing Housing-One to Four Family Living Units.

The intended outcome is to establish that the Rural Development GRH Program encourages the use of Valuation Condition (VC) Forms prepared in accordance with HUD Handbook 4150.2 for compliance with the requirements of RD Instruction 1980-D, Section 1980.341(b)(1)(i).

In June 1999, HUD issued Handbook 4150.2 to replace the appraiser requirements of Handbook 4150.1 REV-1, Valuation Analysis for Home Mortgage Insurance.

The GRH program now uses HUD Handbook 4150.2 in place of Handbook 4150.1.

HUD handbooks and forms can be downloaded over the Internet at <http://www.hudclips.org> or obtained by calling 1-800-767-7468.

**FHA appraisers can be located at <https://entp.hud.gov/idapp/html/apprlook.cfm>.**

The VC Form specifically addresses the repairs that must be completed in order for the property to be acceptable under the GRH Program. A VC Form prepared in accordance with HUD Handbook 4150.2 by an appraiser designated on the FHA register is an acceptable form of documentation to comply with RD Instruction 1980-D, Section 1980.341(b)(1)(i).

Alternatively, a home inspection report prepared by a home inspector deemed qualified by the lender may be obtained. The home inspection report must contain information substantially similar to that covered by the VC Form, specifically including:

- the physical condition of the structure including the roof surface and foundation;
- the condition of the major mechanical systems including plumbing, electrical, heating and cooling;
- any readily observable site hazards;
- any readily observable property considerations such as drainage problems or evidence of wood infestation, and;
- any repairs necessary for the dwelling to be structurally sound, functionally adequate and in good repair.

A home inspection that meets the above requirements is adequate to ensure compliance with RD Instruction 1980-D, Section 1980.341(b)(1)(i).

In addition to the VC Form or home inspection report, the lender must obtain documentation for an existing dwelling showing:

- the existing dwelling meets the thermal standards per RD Instruction 1980-D, Section 1980.313(f);
- individual water supply and sewage disposal systems have been inspected and determined to meet the requirements of the health authority having jurisdiction;
- any repairs necessary for the dwelling to be structurally sound, functionally adequate and in good repair have been completed prior to requesting the Loan Note Guarantee, or the escrow account requirements of RD Instruction 1980-D, Section 1980.315 have been met;
- the results of a pest inspection if required by the inspector, appraiser or lender.

#### **THERMAL REQUIREMENTS FOR EXISTING PROPERTIES**

- Walls-- No requirements to existing exterior walls unless alterations are being made to the walls.  
If alterations are being made the walls must be brought up to R-18.25.  
Any additions must have R-18.25.
- Ceilings--Insulation must be added to bring to R-30
- Floors---Insulation with R-19 is required, supported by nylon or fiberglass mesh.  
Ground must be covered with a 6 mil. polyethylene.
- Windows--Storm Windows or Double pane will be required.
- Doors---A 1 1/4" thick combination storm/screen door to be installed over all wood entrance doors.

**NOTE:** An exception can be requested with an Energy Analysis of the home.

#### **ESCROW ACCOUNTS FOR EXTERIOR DEVELOPMENT:**

An escrow account, for exterior development only, may be established by the originating lender if the following are met:

1. A signed contract is in effect for the proposed exterior work.
2. The contract can be completed within 120 days.
3. The lender agrees to obtain a final inspection when the exterior work is completed.  
The escrow account should be funded with a sufficient amount to complete the remaining work. (The amount should be 150% of the repair bid.)

**THE ABOVE APPLIES ONLY WHEN THE LENDER WILL RECEIVE THE LOAN NOTE GUARANTEE PRIOR TO THE COMPLETION OF THE REPAIR WORK!!**

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## PROCESSING CONSTRUCTION LOANS

The following requirements must be met on all construction loans:

### 1. Plan Certification

Must meet state building codes (See example form RD 1924-25)

May be certified by:

1. Builder (if a 10 year warranty is provided)
2. County plan reviewer
3. Architect
4. Engineer
5. HUD Certified Plan Reviewer/Compliance Inspector

### 2. Required Inspection Reports

1. When the Footing and foundation are ready to be poured but prior to back filling.
2. When the shell is closed in but plumbing, electrical and mechanical work is still exposed.
3. Final Inspection when construction is complete, prior to occupancy.

**CONSTRUCTION INSPECTORS** must be qualified and approved by the lender.

### 3. Construction Warranties

Builder must provide a minimum 1 year warranty.

1. Certificate of occupancy (If Applicable)
2. Well and Septic inspections
3. Termite inspection and/or treatment

### 4. Certification of Inspection for the dwelling can be provided by the appraiser or inspector.

Newly constructed homes (spec homes) must have the required inspections or an approved 10 year warranty. Form RD 1924-25 must be properly completed and submitted with the loan package. Loans not meeting these requirements will be limited to 90 percent of the present market value.

**NOTE:** If the building carries a 10-year warranty plan acceptable to RD, the first two inspections may be waived.

### 5. Lender will submit Form RD 400-1, 400-3 and 400-6. (If the borrower is a party to the construction loan)

## THERMAL REQUIREMENTS FOR NEW CONSTRUCTION

### 1. Walls-----R-18.25

### 2. Ceilings--R-30

### 3. Floors----R-19 (floors with a crawl space)

Insulation is to be supported with nylon or fiber glass mesh.

The ground is to be completely covered with 6 mil. polyethylene

### 4. Windows-- Double pane thermal glass or regular single pane glass with a built in self storing attached storm sash.

### 5. Doors-----1 3/4" metal faced door with a rigid insulating core. Metal doors must be labeled to show compliance with a HUD Use of Materials Bulletin No. 89 or a solid core wood door with a 1 1/4" thick combination storm/screen door.

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## GENERAL PROPERTY REQUIREMENTS:

The property must be located in a designated rural area. If this cannot be determined from the maps provided, call Rural Development and they will make the determination for you.

### Access:

1. Property must be contiguous to and have **direct** access from a street road or driveway.
2. If access is from a driveway, the maintenance cost for the driveway must be considered.
3. Streets and roads must be dedicated to and accepted by a public body which will be responsible for the upkeep.
4. Streets and roads must be hard surface unless not required by local ordinance and codes. If hard surface is not required, the surface must be an all weather surface.

- SITE:
1. Must be in a rural area (See non-rural area maps)
  2. Water and waste disposal provided by State or Local government
  3. If private water and septic system are required, these must be approved .
  4. If the private water and septic is expected to serve more than one site, a public entity must assure the long term viability and operation of the facilities.

**Note: Subdivisions do not have to be specifically approved by the Rural Development, however, the lender should have evidence the subdivision has been approved by local, regional, State, or Federal Government.**

## APPRAISAL REQUIREMENTS:

The lender will require the appraiser to be RA or GA certified. Original photographs will be submitted with each appraisal. All appraisals will be completed according to USPAP and FIRREA guidelines. The appraisal must have been completed within six months of submission to Rural Development.

**REMEMBER:** Appraisals for new construction for homes less than one year old will include the "Estimated Reproduction Cost-New" be completed on every URAR report.

## LEASEHOLD REQUIREMENTS:

Leasehold properties are acceptable if the lender determines this to be a well established and that such properties are marketable and provided the lender certifies to the following:

- Applicant is unable to obtain fee simple ownership.
- The lease has an unexpired term of at least 40 years from date of loan approval. A lease for 25 years with an option to renew for an additional 15 years would be considered a 40 year lease.
- When the lease is in existence at least one year prior to loan approval, the loan may be guaranteed if the unexpired term of the lease is at least 50 percent longer than the repayment period. In no case will the unexpired term of the lease be less than 15 years.

## FLOOD AREAS AND REQUIREMENTS:

Rural Development does not encourage approval of sites within the 100 year floodplain. It is not the intent of Rural Development to guarantee loans when there is a threat to life, property, and to natural and beneficial floodplain values.

The lender should consider the potential for monetary loss, human safety, health, welfare, and the cost and damage to others, when reviewing such actions.

However, if there are no affordable sites outside of the flood plain, the lender may provide the following to Rural Development:

1. The lender or appraiser will identify any practicable alternative to locating in the base floodplain. If there is an alternative the proposed action will not be located in the floodplain.
2. The lender will reevaluate the alternatives. The lender or appraiser will document that there are no affordable alternatives before a commitment will be issued for the loan.
3. The finished floor elevation of the habitable space must be 12 inches above the established 100 year floodplain (proposed construction). The base floor elevation should be above base flood elevation for existing homes.
4. The lender will obtain the necessary flood insurance coverage at or prior to loan closing.
5. The lender will implement all necessary actions for the proposed loan.

**NOTE:** Due to the extent of the environmental review, a significant delay in the issuance of the conditional commitment could occur in some cases.

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## MANUFACTURED HOME REQUIREMENTS

A Dealer-Contractor must be approved by the State Director in order to participate in the Single Family Housing program. (See Exhibit B, Attachment 1 for approved dealers/contractors). The financing of manufactured homes is restricted to new units unless the unit is already financed with a Section 502 Direct Single Family Housing loan or a Guaranteed Rural Housing loan.

The following items must be submitted to the local office by the Lender/Dealer-Contractor for the financing of a manufactured home. Information and exhibits should be completed in detail in order to expedite the review and approval process.

1. **Manufacturer's Unit Model, Serial #, Style, etc.**
2. **Floor Plan:** Provide a schematic floor plan. Detailed floor plans and specifications are not required.
3. **Itemized Cost Breakdown:**  
Total package price including the base unit, options, land cost, installation/set up, site development, garage, landscaping, permits and fees, and any credit for wheels and axles.
4. **A Statement Signed by the Dealer-Contractor:** (Exhibit B, Attachment 2)
  - a. That any cash payment or rebate as a result of the purchase of the manufactured home will be deducted from the price of the unit and not paid to the applicant.
  - b. That this is the full price of the unit and all development. If furniture is included in the purchase price, the Dealer-Contractor agrees a lien will not be filed against the property. (Furniture cannot be included in the loan from Rural Development)
  - c. That the manufactured home property substantially complies with the plans and specifications and the manufactured home sustained no hidden damage during transportation and, if manufactured in separate sections, that the sections were properly joined and sealed according to the manufacturer's specifications.

### 5. **Site Development Information:**

Provide a plot plan, specifications and plans for the site development. The information shall be included for any appendages proposed, such as driveways, patios, steps, porches, garages, etc. Refer to Exhibit B, Attachment 3 of this instruction and Exhibit C to RD Instruction 1924-A for further guidance on site development.

### 6. **Manufactured Home Foundation:**

The manufactured home must be permanently attached to a site-built concrete foundation. Foundation plans and specifications, for the site-built foundation, shall be provided for each manufactured home. The foundation plans shall include the manufacturer's foundation requirements (example - the location of the supporting piers).

The foundation plans and specifications shall be designed to resist all loads identified in the latest edition of the CABO One and Two Family Dwelling Code, and shall be designed and/or certified by a registered engineer for the - conditions of the site (example - be designed to withstand the shrink/swell properties of a soil).

The anchoring devices for the unit shall be adequate to resist all loads identified in the latest edition of the CABO One and Two Family Dwelling Code. This includes resistance to ground movements, seismic shaking, potential shearing, overturning and uplift loads caused by wind. Anchoring straps or cables affixed to ground anchors other than footings will NOT be allowed.

A brick veneer curtain wall shall be constructed around the unit, on a continuous reinforced concrete perimeter footing. The footings for the curtain wall shall be connected to the interior footings which supports the piers.

**7. Manufacturer Certificate of Encumbrance:**

The manufacturer of the unit must furnish an executed manufacturer's certificate of origin that the unit is free and clear of all legal encumbrances.

**8. Thermal Design Certification:**

Manufactured homes constructed to the "Federal Manufactured Home and Construction and Safety Standards" (FMHCSS) and conforming to HUD Zone II thermal requirements are eligible for agency financing in MS. The manufactured home manufacturer shall permanently affix a "Compliance Certificate" to the interior of the unit in accordance with Section 3280.510 of the FMHCSS. The certificate shall certify that the unit conforms to HUD Zone II thermal requirements.

The lender must verify and document that the "Compliance Certificate" is affixed to the manufactured home and verify that the certificate shows that the manufactured home is constructed to HUD Zone II thermal requirements.

**9. FMHCSS Label:**

Units conforming to the FMHCSS are certified by an affixed label that reads as follows:

AS EVIDENCED BY THIS LABEL NO. \_\_\_\_\_ THE MANUFACTURER CERTIFIES TO THE BEST OF THE MANUFACTURER'S KNOWLEDGE AND BELIEF THAT THIS MANUFACTURED HOME HAS BEEN INSPECTED IN ACCORDANCE WITH THE REQUIREMENTS OF THE DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT AND IS CONSTRUCTED IN CONFORMANCE WITH THE FEDERAL MANUFACTURED HOME CONSTRUCTION AND SAFETY STANDARDS IN EFFECT ON THE DATE OF MANUFACTURE. SEE DATA PLATE.

The local office must verify and document that the FMHCSS data plate is affixed to the manufactured home and record the serial number of the unit.

10. **Individual Water System:**  
Individual water supply systems shall meet the design requirements of the Mississippi State Department of Health (MSDH). A copy of the letter of approval from the MSDH must be provided for the water supply system after the system is installed by the Dealer-Contractor and inspected by the MSDH. Refer to paragraph V of Exhibit C to RD Instruction 1924-A.
11. **Individual Wastewater Disposal System:**  
Individual wastewater disposal systems shall meet the design requirements of the MSDH. A copy of the letter of approval from the MSDH must be provided for the wastewater disposal system after the system is installed by the Dealer-Contractor and inspected by the MSDH. Refer to paragraph V of Exhibit C to RD Instruction 1924-A.
12. **Form AD 1048:**  
The lender must obtain the signature of the Dealer-Contractor on Form AD 1048, "Certification Regarding Debarment, Suspension, Ineligibility and Voluntary Exclusion - Lower Tier Transactions".
13. A copy of the Certificate of Occupancy of final inspection report must be obtained from the city or county, for the borrower's file, if applicable.
14. **Dealer-Contractor Warranty:**  
The Dealer-Contractor must provide a warranty in accordance with the provisions of Section 1924.12 of RD Instruction 1924-A. Form RD 1924-19, "Builders Warranty", with warranty protection for one (1) year must be provided by the Dealer-Contractor upon final acceptance of the work by the owner and Rural Development. The Dealer-Contractor will also furnish the owner with a copy of all manufacturer's warranties.
15. **Construction Contract or Sub-Contract in Excess of \$10,000:**  
Executive Order 11246 provides for equal opportunity without regard to race, color, religion, sex, or national origin and the elimination of all facilities segregated on the basis of race, color, religion, or national origin on construction work financed or guaranteed by Rural Development involving a construction contract of more than \$10,000.
  - a. Applicant to execute Form RD 400-1, "Equal Opportunity Agreement".
  - b. Contractor to be delivered Form RD 400-3, "Notice to Contractors and Applicants", and non-discrimination poster. This is prepared and provided by the local office.
  - c. Contractor to complete and execute Form RD 400-6, "Compliance Statement".
  - d. Form RD 1924-6, "Construction Contract" must be utilized by the applicant/borrower for contract method of construction.

Further guidance regarding Manufactured Homes may be found in RD Instruction 1924-A, Exhibit J, "Manufactured Home Sites, Rental Projects and Subdivision: Development, Installation and Set-Up".

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## APPLICATION PROCESSING

Reservations:

The lender will execute Form RD 1980-86, "Request of Reservation of Funds", prior to the complete loan package being submitted to the local office. This should be completed at the same time the appraisal is ordered or once the lender determines a Rural Development guarantee is necessary. The lender will then receive a reservation confirmation from the local office.

### THE LENDER WILL SUBMIT THE FOLLOWING TO THE RD LOCAL OFFICE:

1. Underwriters Approval (May include signed Fannie Mae 1008)
2. Copy of 1003 and 1008
3. Copy of contract or Purchase Agreement
4. 1980-21
5. VOE's, VOD's
6. Income worksheet
7. Credit Report (should include rent verification)
8. Appraisal with original photographs
9. All normal required disclosures.

### THE FOLLOWING IS VITAL TO GETTING THE CONDITIONAL COMMITMENT ISSUED

- Applicant signs RD Form AD 1048
- Lender and applicant completes and executes Form RD 1980-21
- Rural Development Income Worksheet (or other appropriate documentation)
- Lender completes Rural Development Checklist

**If Rural Development is able to approve the loan, the Rural Development official will:**

- Approve the application on GLS
- Prepare RD Form 1980-18 listing all requirements, the Conditional Commitment will be valid for 90 days with an option to renew for an additional 90 days.
- RD will issue a Conditional Commitment or denial within 2 days of receipt of a complete application package. The lender will be contacted if Rural Development requires additional information.

**Note: 1. Rural Development requires the veteran status be given on all loans**

2. **The loan must close at the amount shown on the Rural Development Conditional Commitment.**

The lender must process and underwrite the loan before submitting it to Rural Development. Rural Development does not underwrite the loan. Rural Development will perform a desk review to determine that the applicant is eligible and the property is outside the non-rural area.

The lender will submit all necessary information and documentation mentioned beforehand regarding New or Existing dwellings.

**APPLICATION PROCESSING (cont.)**

If the applicant is not a United States Citizen, the lender will verify legal admission for permanent residence or indefinite parole. One of the following Immigration or Naturalization documents may serve as verification of alien status.

1. Alien Registration Receipt Card
2. Arrival/ Departure Record
3. Temporary Resident Card
4. Memorandum of Creation of Record of Lawful Permanent Residence
5. INS form letter addressed to alien regarding his/her status
6. INS Fee Receipt
7. A stamped passport with the notation "Processed for I-151, Temporary Evidence of Lawful Admission for Permanent Residence
8. I-688, stamped '210" or "245-A" in bold print
9. Reentry Permit and Refugee Travel Document

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## LOAN CLOSING AND ISSUANCE OF LOAN NOTE GUARANTEE

The lender will submit the following information to Rural Development to document Loan Closing and the compliance with the Conditional Commitment:

1. Form RD 1980-18 signed by the lender (See example in manual)
2. Copy of all inspection reports
3. Settlement Statement or HUD 1
4. Copy of Note
5. Copy of Deed and Deed of Trust
6. Copy of Lender Agreement
7. Form RD 1980-11 (If lender plans to sell loan)

Example:  $\$80,000.00 \times .2\% = \$1,600.00$

Failure to submit any of the above information could delay the submission of the Loan Note Guarantee to the lender.

After all requirements of the Conditional Commitment are met, Rural Development will issue the Loan Note Guarantee to the lender.

**The loan must close in the Company name shown on the Rural Development Conditional Commitment and the Loan Closing Report must be completed and sent to Rural Development by the Company shown on the Rural Development Conditional Commitment.**

The lender will maintain a file for each guaranteed loan, containing the original or copies of all documents pertaining to the loan.

**RURAL DEVELOPMENT FORMS USED IN THE GUARANTEED LOAN PROGRAM**

<u>RD Form Number</u>	<u>Title of Form</u>	<u>Purpose of Form</u>
AD 1047	Certification on Suspension	Signed by Lender to acknowledge suspension of individuals
AD 1048	Certification on Debarment	Signed by Applicants to acknowledge suspension
1910-5/FNMA VOE	Request for Verification	Used by Lender to obtain written verification of employment. (Lender may use FHA or FNMA forms)
1924-12/HUD FORM	Inspection Report	Used by Rural Development, Lender or Borrower to record findings when construction or compliance inspections are made.
1924-25	Plan Certification	Used by builder to provide documentation of compliance to specific building codes.
1944-4	Certification of Disability or Handicap	Used by Lender to verify an Applicant's eligibility for certain adjustments to income
1980-11	Guaranteed Rural Housing Lender Record Change	Used by one Lender to sell the loan note to another lender
1980-16	Lender Agreement for Guaranteed Single Family Housing Loans	Used by Rural Development and lender to confirm agreements regarding Rural Housing Loan Guarantees.
1980-17	Loan Note Guarantee	Used by Rural Development to issue the Guarantee.
1980-18	Conditional Commitment	Used by Rural Development to set forth conditions of approval and used by Lender to accept the conditions.
1980-19	Guaranteed Loan Closing Report	Used by Lender to report closing of a guaranteed loan to Rural Development and to remit guarantee fee.
1980-20	Report of Loss	Used by Lender to report loss on a loan or collection recovery of a paid loss.
1980-21	Lender request for guarantee	Used by Lender to submit request for guarantee.
1980-86	Reservation of Funds	Used to reserve GRH funds after receipt of application.

Certification of Inspection for Rural Development Loan (no form # assigned)

**Replacement Forms can be found at <http://rdinit.usda.gov/regs/formtoc.html>**

**National Regulations can be downloaded from the Web site: <http://rdinit.usda.gov/regs>**