

RD AN No. 4634 (1980-D)
April 2, 2012

TO: State Directors
Rural Development

ATTENTION: Rural Housing Program Directors,
Guaranteed Rural Housing Specialists,
Area Directors and Specialists

FROM: Tammye Treviño (Signed by Tammye Treviño)
Administrator
Housing and Community Facilities Programs

SUBJECT: Single Family Housing Guaranteed Loan Program
Rural Refinance Pilot

PURPOSE/INTENDED OUTCOME:

The purpose of this Administrative Notice (AN) is to announce that eligible loan closing costs may be included in the Rural Refinance Pilot program loan amount. The Rural Refinance Pilot is designed to assist existing Section 502 borrowers, for both direct and guaranteed loans, to refinance their homes with greater speed and ease. The pilot program is available for a two year period to borrowers in "Hardest Hit" states, where steep home price declines and unemployment have made refinancing a current mortgage into more affordable terms very difficult or impossible. Borrowers in these states will be able to refinance their homes to secure lower interest rates and monthly payments without the need of obtaining a new credit report, new appraisal, or new property inspections.

COMPARISON WITH PREVIOUS AN:

This AN replaces RD AN No. 4615 (1980-D) dated February 2, 2012, which will expire December 31, 2012. Additional program clarification is included in that eligible closing costs may be included in the refinance loan amount.

EXPIRATION DATE:
March 31, 2013

FILING INSTRUCTIONS:
Preceding RD Instruction 1980-D

SECTION 502 GUARANTEED LOAN PROGRAM RURAL REFINANCE PILOT GUIDELINES:

Brief Pilot Description: The Rural Refinance Pilot is available to eligible borrowers who qualify to refinance their current USDA mortgage loans. Under the Rural Refinance Pilot program, a lender does not need to submit a new credit report, new appraisal, any HUD Handbook minimum property determinations, or any additional property inspections. An appraisal will be required for a direct loan refinanced into a new guaranteed loan.

Eligible “Hardest Hit” States: The following states may participate in the Rural Refinance Pilot: Alabama, Arizona, California, Florida, Georgia, Illinois, Indiana, Kentucky, Michigan, Mississippi, Nevada, New Jersey, New Mexico, North Carolina, Ohio, Oregon, Rhode Island, South Carolina, and Tennessee. Additional States are not eligible at this time.

Eligible Borrowers: Current Section 502 Direct or Guaranteed Loan borrowers must:

1. Meet current income eligibility requirements;
2. Reside in an eligible rural area or an area that was eligible at the time of the original loan closing; and
3. Have made timely mortgage payments for the 12-month period prior to the refinance.

Overview of Rural Refinance Pilot Guidelines:

1. The existing loan must be a Section 502 Direct or Guaranteed loan.
2. The new interest rate must be a fixed rate, and a minimum of 100 basis points below the current interest rate. The interest rate must not exceed RD Instruction 1980-D, Section 1980.320.
3. The new term of the refinance loan must be thirty years.
4. Borrowers may not be added or removed (unless deceased) from the current loan.
5. A Rural Refinance Pilot loan may include the principal balance of the loan plus a portion of or the full upfront guarantee fee and eligible loan closing costs. The applicable one time upfront guarantee fee for a refinance is 1.5 percent. No cash out is permitted to the borrower. Subsidy recapture due for direct loan borrowers is not eligible to be part of the refinance loan. Subsidy recapture must be paid in full by the borrower or subordinated.
6. An annual fee also applies.
7. The home must remain the borrower’s primary residence.
8. A new appraisal, new credit report, HUD Handbook determination and additional property inspections are not required.
9. Direct loan borrowers will require a new appraisal to calculate subsidy recapture that may be due, but it will not be used for loan-to-value purposes. The cost of this appraisal is an eligible loan closing cost.
10. Debt-to-income ratio calculations are not required. Therefore debt ratio waiver requests will not be necessary.
11. Rural Refinance Pilot loans must be manually underwritten. They cannot be processed through the Guaranteed Underwriting System (GUS).

12. Customary and reasonable closing costs and other fees may be collected from the borrower by the lender. Such charges may not exceed the cost paid by the lender or charged to the lender by the service provider. An origination fee of up to 1 percent of the total loan amount may be charged to the borrower as an eligible loan closing cost.
13. All the following documentation is required:
 - a. Form RD 1980-21 “Request for Single Family Housing Loan Guarantee.”
 - b. Income verifications for all adult household members.
 - c. Uniform Residential Loan Application.
 - d. Evidence of qualified alien status, if applicable.
 - e. FEMA Form 81-93. Appropriate flood insurance must be obtained if the property is in a flood zone at the time of the new loan closing, even if the area was not in a flood zone at the time of the original loan closing. A flood elevation survey is not required for this pilot.
 - f. Evidence of previous 12 month mortgage payment history. The lender must secure evidence to document the borrower(s) has paid the loan on time for the previous 12 months. The lender may utilize a Verification of Mortgage obtained from or provided directly by the loan servicer that lists the payment history for each of the previous 12 months. As an alternative, the lender may submit a credit report which reflects a satisfactory mortgage payment history over the past 12 months. If the lender submits a credit report to Rural Development as proof of payment history, only the payment history of the current mortgage will be considered. Credit waivers or explanations for adverse credit that may be present on the report are not required.
14. All additional requirements of RD Instruction 1980-D and applicable Administrative Notices continue to apply.

Instructions to obtain a “Statement of Loan Balance” or payoff/subsidy recapture due for a Section 502 Direct loan borrower:

Lenders may determine an applicant has a direct loan when the credit report reflects the mortgage loan creditor as “USDA,” or the applicant informs the lender they applied and received their mortgage loan through a USDA Service Center.

SFH Direct loans are serviced by the Centralized Servicing Center (CSC) located in St. Louis, MO. When lenders have a direct loan applicant they may obtain a payoff from the CSC.

Steps for obtaining a “Statement of Loan Balance” letter:

1. On letterhead suitable for fax transmission include the borrower’s name, account number, address, and the date for which the payoff should be valid. If available at the time of payoff request also include a copy of the good faith estimate or estimated closing cost statement and a recent appraisal of the direct loan property. If a current appraisal is not remitted at the time of the loan payoff request, the “Statement of Loan Balance” will reflect the maximum amount of subsidy recapture that may be due. When a current appraisal is submitted to the CSC, the

payoff may be adjusted to reflect the actual amount of subsidy recapture due. The fax number for requests is 314-457-4433.

2. The “Statement of Loan Balance” will also include instructions for the lender to follow regardless of information submitted at the time of payoff request.

The CSC will not provide payoff quotes verbally or over the phone. Lenders and direct loan borrowers that have questions regarding a direct loan account may contact the CSC at (800) 414-1226.

Rural Development Responsibilities:

1. Request funding for the refinance by sending an email request to: sfhgld@wdc.usda.gov. Please include the State and the amount of funding needed.
2. Retrieve original guarantee appraisal amounts in GLS when processing Rural Refinance Pilot transactions. Enter the new loan amount as the appraised value in GLS for direct loans refinanced.
3. Review the previous 12-month mortgage payment history. If a credit report is submitted, only review the 12-month mortgage payment history. If the mortgage account is currently delinquent or has been reported delinquent in the previous 12 months, the borrower is not eligible. Agency staff should use the “Borrower ID” with GLS Report “*GLSST01: Status of a GRH Loan Account*,” to ensure the loan is currently active and not in default.
4. Enter 1 in the “FICO Score” data field when processing a Rural Refinance Pilot application in GLS.
5. Enter the repayment income calculation in GLS, but do not include any “Additional Liabilities” amounts. If the new mortgage payment results in ratios above 29 and/or 41 percent, check the box that indicates a debt ratio waiver has been issued by the Agency.
6. On the “Update Application” GLS loan screen under “Agency Information,” select the “Servicing Office” named “Rural Refi Pilot.” In the “Agency Notes” section enter a note to identify this loan as a “Rural Refinance Pilot Loan.” These steps will identify the loan as part of this pilot in the event of a loan review.
7. Once the Agency’s loan closing transaction has processed and a new *Loan Note Guarantee* has been issued, the Finance Office should be notified to terminate the original guarantee. Notifications may be made to the Finance Office, Guaranteed Loan Branch, Attn: FC-350 Box 200011, St. Louis, MO 63120-0011; or, via fax at (314) 457-4279.

If you have any questions, please contact Kristina Zehr of the Guaranteed Loan Division at (309) 452-0830, ext. 111; or, via email at kristina.zehr@wdc.usda.gov. The Single Family Housing Guaranteed Loan Division may also be contacted at (202) 720-1452.