USDA Rural Development

Section 502 Guaranteed Rural Housing Training

Program Highlights

Applicant Requirements

- ✓ Must be at or below the moderate-income limit for family size and geographic location. Family size includes anyone who will live in the dwelling (not necessarily related by blood or marriage)

Area	1 Person	2 Person	3 Person	4 Person
Charlottesville MSA	51200	58550	65850	73150
Clark County	55050	62900	70750	78650
Culpeper County	49400	56450	63500	70600
Danville MSA	45500	52000	58500	65000
Johnson City MSA	45500	52000	56500	65000
King George Cty.	51400	58750	66100	73450
Lynchburg MSA	45500	52000	58500	65000
Norfolk MSA	45500	52000	58500	65000
Richmond MSA	53050	60600	68200	75750
Roanoke MSA	45500	52000	58500	65000
Warren Cty.	46200	52800	59400	66000
Washington MSA	56850	65000	73100	81200
Rest of State	45500	52000	58500	65000

- ✓ Must have a credit history that shows a reasonableness to pay debts.
  - ✓ Any applicant with a credit score of 660 or above is considered good credit even with outstanding collections and judgements. See RD AN 3819.
- ✓ Must have repayment ratios of 29/41
  - ✓ Any applicant with a credit score of 660 or above can have the ratios above the 29/41 base. See RD AN 3817.
- ✓ Payment shock should be less than 100%
  - ✓ If over 100% provide documentation. See RD AN 3818.
- ✓ Cannot own a house in the local commuting area
- ✓ Cannot be delinquent on a Federal Debt

- ✓ Be without sufficient resources to obtain a mortgage loan without PMI
- ✓ Be a US citizen or a legally admitted alien. See RD AN 3712.
- ✓ Occupy the house on a full-time basis
- ✓ No maximum for cash on hand. The applicant must not have sufficient cash on hand to obtain conventional financing (a no PMI loan).
- ✓ Not limited to first time homebuyers

Property Requirements

- ✓ Property must be in an eligible rural area. See maps for details.
- ✓ Property must be contiguous and have direct access from a street, road or driveway. This does not mean the property must be located on a state maintained road. Properties are acceptable when the road is privately owned (HOA, extended driveway with road maintenance agreement). See VA AN 391.
- ✓ Properties must have adequate water and waste disposal systems.
- ✓ Existing dwellings must be structurally sound, functionally adequate and in good repair.
- ✓ All single family housing units are acceptable-detached, townhouses, condos. These dwellings can be new or previously occupied.
- ✓ Manufactured housing units are acceptable when purchased new (not previously occupied).
- ✓ No requirement for an access letter for gated communities.
- ✓ No maximum loan limit

Helpful Processing Hints

- ✓ Use the USDA e-forms site for necessary forms. It is located at http://www.forms.sc.usda.gov/eforms/mainservlet. Then you can fill out the forms on-line, print out and sign. No reason to have blanks in stock and you can throw out the typewriter! Completed forms can be saved on your computer.
- ✓ The Virginia Rural Development web site is located at http:www.rurdev.usda.gov/va/index.html.
- ✓ The current version of the 1980-D is June 21, 1995.
- ✓ CAVIRS number should be located above the signature line on the application.
- ✓ All loans must be underwritten using the 1008 or equivalent.

Processing Steps

1. Take application from the applicant and determine what type of financing is appropriate;
2. Reserve funds using RD Form 1980-86;
3. Process and underwrite application;
4. Send underwritten application to Rural Development for review;
5. Close the loan, and,
6. Submit documents to receive Loan Note Guarantee.

Necessary Documents to Process the Application:

1. Uniform Residential Loan Application;
2. Form RD 1980-21, “Request for SFH Loan Guarantee” with income, credit history verification, purchase agreement and appraisal with photos;
3. Form AD 1048;
4. FEMA Form 81-93, “Standard Flood Hazard Determination”.

RURAL HOUSING SERVICE a.k.a. RURAL DEVELOPMENT

UNITED STATES DEPARTMENT OF AGRICULTURE

UNIFORM ORIGINATION PACKAGE CHECKLIST

Date:

Applicant name(s):

Lender loan number:

HIGH QUALITY COPIES ARE ACCEPTABLE

☐ **Form RD 1980-21, "Request For Single Family Housing Loan Guarantee"**
Signed by RHS approved lender and applicant(s)
- ☐ **Income verification***
- ☐ **Credit history verificatio n***
- ☐ **Purchase agreement***
- ☐ **Appraisal with photos. Provide conventional or FHA appraisal on new or proposed construction. For existing properties, RHS encourages the URAR and VC Form by a FHA appraiser.**

☐ **Form AD-1048, "Certification Regarding Debarment, Suspension…"**
Signed ONLY by applicant(s)

☐ **Uniform Residential Loan Application***
Must be fully completed and signed by the applicant(s). The CAIVRS number for each applicant must be listed above the signature line.

☐ **Lender's Loan Underwriting Analysis***
Uniform Underwriting Analysis and Transmittal Summary or similar form signed by the underwriter.
- ☐ **Comments and requirements of underwriter must be attached.**
- ☐ **Compensating factors are attached, if required by RHS regulations or Administrative Notices.**

☐ **FEMA Form 81-93, "Standard Flood Hazard Determination"**
NA if refinancing a RHS direct or guaranteed debt.

RHS, Fannie Mae, Freddie Mac, VA, and FHA-HUD forms and documentation are acceptable.

You may replicate RHS forms for your supply.

RHS forms, Administrative Notices, and regulation 1980-D are available at: http://rdinit.usda.gov
Find Form AD-1048 on the site under "Series 1000" as "Form 1048"
Other sites for forms and information are: http://forms.sc.egov.usda.gov/eforms/mainservlet
and: http://firstgov.gov

For the directory of personnel and Agency program information, access the home page for the state's Rural Housing Service, a.k.a., Rural Development, by adding a forward slash and the two letter state abbreviation to the national Rural Development web site: http://www.rurdev.usda.gov For example, to access Georgia's home page: http://www.rurdev.usda.gov/ga

This is not an official form of the United States Department of Agriculture. It has been developed as a tool for voluntary use by lenders in packaging uniform loan documents for submission to the Rural Housing Service under the Guaranteed Housing Loan Program.

Revised 7/1/02

USDA-RHS
Form RD 1980-86
(10-99)

FORM APPROVED
OMB NO. 0575-0078

UNITED STATES DEPARTMENT OF AGRICULTURE
RURAL DEVELOPMENT
RURAL HOUSING SERVICE (RHS)
GUARANTEED RURAL HOUSING (GRH)

REQUEST FOR RESERVATION OF FUNDS

LENDER INFORMATION:

Submitting Lender **Name**: _____ **Tax I.D. No.** _____

Address: _____

_____

Lender Contact Person: _____

Contact Phone No. (_____)_____ **Ext.** _____ **Fax No.** (_____)_____

RHS Approved Lender *(Complete when Submitting Lender (listed above) is **not** an RHS Approved Lender):*

Name: _____ **Tax I.D. No.** _____

APPLICANT/PROPERTY INFORMATION:

Reservation Amount Requested: $_____ ☐ Applicant and Co-Applicant are both First Time Homebuyers

Applicant Information	***Co-Applicant Information***
Name: _____	***Name:*** _____
SSN: _____	***SSN:*** _____
OPTIONAL: *(Please circle or mark as appropriate)*	***OPTIONAL:*** *(Please circle or mark as appropriate)*
Veteran: Yes No ***Disabled:*** Yes No ***Gender:*** M F	***Veteran:*** Yes No ***Disabled:*** Yes No ***Gender:*** M F
Ethnicity: *(Check only One Box)* ☐ Hispanic or Latino ☐ Not Hispanic or Latino	***Ethnicity:*** *(Check only One Box)* ☐ Hispanic or Latino ☐ Not Hispanic or Latino
(Check as many boxes as applicable) ***Race:*** ☐ American Indian or Alaska Native ☐ Asian ☐ Black or African American ☐ Native Hawaiian or Other Pacific Islander ☐ White	*(Check as many boxes as applicable)* ***Race:*** ☐ American Indian or Alaska Native ☐ Asian ☐ Black or African American ☐ Native Hawaiian or Other Pacific Islander ☐ White
Marital Status: ☐ Married ☐ Separated ☐ Unmarried	***Marital Status:*** ☐ Married ☐ Separated ☐ Unmarried

Property Address: _____

City, State, Zip Code: _____ **County:** _____

We are processing an application from the above named person(s), and expect to have a complete package to you within 60 days. Please reserve funds for this loan. We have reviewed the applicants income and credit history and have tentatively determined the applicant(s) has sufficient qualifying income and credit history to proceed with this application.

_____ Date: _____
(Authorized Lender Representative/Official)

According to the Paperwork Reduction Act of 1995, an agency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless it displays a valid OMB control number. The valid OMB control number for this information collection is 0575-0078. The time required to complete this information collection is estimated to average 30 minutes per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information.

Form RD 1980-21
(Rev. 1-03)

UNITED STATES DEPARTMENT OF AGRICULTURE
RURAL DEVELOPMENT
RURAL HOUSING SERVICE

Form Approved
OMB No. 0575-0078

REQUEST FOR SINGLE FAMILY HOUSING LOAN GUARANTEE

TO: Rural Development Rural Housing Service	Lender ID No.
	Lender Name
	Lender Contact Person
	Lender Phone Number
	Lender Fax Number

Please issue a Conditional Commitment for Single Family Housing Loan Guarantee in the following case:

Applicant's Name, Address, and County	Social Security No.
	Age
	Telephone Number

1. The applicant ☐ has ☐ does not have a relationship with any current Rural Development employee.
2. The applicant is a (check applicable): ☐ US citizen ☐ qualified alien ☐ U.S. Non-citizen National ☐ other (explain)
3. The applicant is a (check applicable): ☐ veteran ☐ first time homebuyer
4. Number of persons in the household: _____
5. The applicant's credit report indicates (check one):
   a. The applicant has no credit history ☐
   b. The applicant has no adverse credit history ☐
   c. The applicant has experienced adverse credit history but we have determined that it is beyond the applicant's control ☐
   d. Other (explain): ☐
6. The current annual income for the household is: $ _____
7. The current adjusted income for the household is: $ _____
8. TOTAL DEBT ratio _____ PITI ratio _____
9. We propose to loan $ _____ for 30 years at _____ % per annum with payments of $ _____ per month.
10. The interest rate is based on the ☐ Fannie Mae ☐ VA rate on ____ / ____ / ____.
    _____ The interest rate is locked in until ____ / ____ / ____.
    _____ The interest rate will float until loan closing.
    (If this option is checked and the interest rate increases at loan closing, the loan must be re-underwritten and this certification must be updated).
11. The applicant is unable to secure the necessary conventional credit without a Rural Development guarantee upon terms and conditions which the applicant could reasonably be expected to fulfill.
12. The applicant understands that Rural Development approval of the guarantee is required and is subject to the availability of funds.
13. Housing and Urban Development's Credit Alert Inactive Voice Response System (CAIVRS) was checked for outstanding delinquent Federal debts and confirmation No. _____ was obtained.
14. Loan funds will be used for the following purpose(s):

Purpose	**Amount**
_____	$_____
_____	$_____
	Total Loan = _____

According to the Paperwork Reduction Act of 1995, no persons are required to respond to a collection of information unless it displays a valid OMB control number. The valid OMB control number for this information collection is 0575-0078. The time required to complete this information collection is estimated to average 30 minutes per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information.

Certifications

In order to induce the Agency to issue the requested guarantee, we certify that we have originated and underwritten the loan in compliance with all Agency loan requirements. This form contains or is supplemented with all information required by 7 C.F.R. § 1980.353(c).

Date

Lender's Authorized Representative Signature

Applicant(s) Acknowledgments and Certifications

I (We) certify and acknowledge that if the Agency pays a loss claim on the requested loan to the lender, I (We) will reimburse the Agency for that amount. If I (We) do not, the Agency will use all remedies available to it, including those under the Debt Collection Improvement Act, to recover on the Federal debt directly from me (us). The Agency's right to collect is independent of the lender's right to collect under the guaranteed note and will not be affected by any release by the lender of my (our) obligation to repay the loan. Any Agency collection under this paragraph will not be shared with the lender.

I AM (WE ARE) unable to provide the housing I (we) need on my (our) own account, and I am (we are) unable to secure the credit necessary for this purpose from other sources upon terms and conditions which I (we) can reasonably fulfill. I (we) certify that the statements made by me (us) in this application are true, complete and correct to the best of my (our) knowledge and belief and are made in good faith to obtain a loan.

Warning: Section 1001 of Title 18, United States Code provides: "Whoever, in any matter within the jurisdiction of any Department or Agency of the United States knowingly and willfully falsifies, conceals or covers up by any trick, scheme, or device a material fact, or makes any false, fictitious or fraudulent statements or representations, or makes or uses any false writing or document knowing the same to contain any false, fictitious or fraudulent statement or entry, shall be fined under this title or imprisoned not more than five years, or both."

Borrower | Co-Borrower | Date

FOR AGENCY ONLY

Check one: ☐ The applicant is eligible ☐ The applicant is not eligible

NOTICE TO APPLICANT REGARDING PRIVACY ACT INFORMATION

The information requested on this form is authorized to be collected by the Rural Housing Service (RHS), Rural Business Cooperative Services (RBS), or Rural Utilities Service (RUS) ("the agency") by title V of the Housing Act of 1949, as amended (42 U.S.C. 1471 et seq.) or by the Consolidated Farm and Rural Development Act (7 U.S.C. 1921 et seq.), or by other laws administered by RHS, RBS or RUS.

Disclosure of information requested is voluntary. However, failure to disclose certain items of information requested, including your Social Security Number or Federal Identification Number, may result in a delay in the processing of an application or its rejection. Information provided may be used outside of the agency for the following purposes:

1. When a record on its face, or in conjunction with other records, indicates a violation or potential violation of law, whether civil, criminal or regulatory in nature, and whether arising by general statute or particular program statute, or by regulation, rule, or order issued pursuant thereto, disclosure may be made to the appropriate agency, whether Federal, foreign, state, local, or tribal, or other public authority responsible for enforcing, investigating or prosecuting such violation or charged with enforcing or implementing the statute, or rule, regulation, or order issued pursuant thereto, if the information disclosed is relevant to any enforcement, regulatory, investigative, or prosecutive responsibility of the receiving entity.

2. A record from this system of records may be disclosed to a Member of Congress or to a Congressional staff member in response to an inquiry of the Congressional office made at the written request of the constituent about whom the record is maintained.

3. Rural Development will provide information from this system to the U.S. Department of Treasury and to other Federal agencies maintaining debt servicing centers, in connection with overdue debts, in order to participate in the Treasury Offset Program as required by the Debt Collection Improvement Act, Pub. L. 104-134, Section 31001.

4. Disclosure of the name, home address, and information concerning default on loan repayment when the default involves a security interest in tribal allotted or trust land. Pursuant to the Cranston-Gonzales National Affordable Housing Act of 1990 (42 U.S.C. 12701 et seq.), liquidation may be pursued only after offering to transfer the account to an eligible tribal member, the tribe, or the Indian Housing Authority serving the tribe(s).

5. Referral of names, home addresses, social security numbers, and financial information to a collection or servicing contractor, financial institution, or a local, State, or Federal agency, when Rural Development determines such referral is appropriate for servicing or collecting the borrower's account or has provided for in contracts with servicing or collection agencies.

6. It shall be a routine use of the records in this system of records to disclose them in a proceeding before a court or adjudicative body, when: (a) the agency or any component thereof; or (b) any employee of Rural Development in his or her official capacity, or (c) any employee of the agency in his or her individual capacity where the agency has agreed to represent the employee; or (d) the United States is a party to litigation or has an interest in such litigation, and by careful review, the agency determines that the records are both relevant and necessary to the litigation, provided; however, that in each case, the agency determines that disclosure of the records is a use of the information contained in the records that is compatible with the purpose for which the agency collected the records.

7. Referral of name, home address, and financial information for selected borrowers to financial consultants, advisors, lending institutions, packagers, agents, and private or commercial credit sources, when Rural Development determines such referral is appropriate to encourage the borrower to refinance their RHS indebtedness as required by title V of the Housing Act of 1949, as amended (42 U.S.C. 1471) or to assist the borrower on the sale of the property.

8. Referral of legally enforceable debts to the Department of the Treasury, Internal Revenue Service (IRS), to be offset against any tax refund that may become due the debtor for the tax year in which the referral is made, in accordance with the IRS regulations and under the authority contained in 31 U.S.C. 3720A.

9. Referral of information regarding indebtedness to the Defense Manpower Data Center, Department of Defense, and the United States Postal Service for the purpose of conducting computer matching programs to identify and locate individuals receiving Federal salary or benefit payments and who are delinquent in their repayment of debts owed to the U.S. Government under certain programs administered by the agency in order to collect debt under the provisions of the Debt Collection Act of 1982 (5 U.S.C. 5514) by voluntary repayment, administrative or salary offset procedures, or by collection agencies.

10. Referral of names, home addresses, and financial information to lending institutions when Rural Development determines the individual may be financially capable of qualifying for credit with or without a guarantee.

11. Disclosure of names, home addresses, social security numbers, and financial information to lending institutions that have a lien against the same property as the agency for the purpose of the collection of the debt by Rural Development or the other lender. These loans can be under the direct and guaranteed loan programs.

12. Referral to private attorneys under contract with either Rural Development or with the Department of Justice for the purpose of foreclosure and possession actions and collection of past due accounts in connection with Rural Development.

13. It shall be a routine use of the records in this system of records to disclose them to the Department of Justice when: (a) The agency or any component thereof; or (b) any employee of the agency in his or her official capacity where the Department of Justice has agreed to represent the employee; or (c) the United States Government, is a party to litigation or has an interest in such litigation, and by careful review, the agency determines that the records are both relevant and necessary to the litigation and the use of such records by the Department of Justice is therefore deemed by the agency to be for a purpose that is compatible with the purpose for which the agency collected the records.

14. Referral of names, home addresses, social security numbers, and financial information to the Department of Housing and Urban Development (HUD) as a record of location utilized by Federal agencies for an automatic credit prescreening system.

15. Referral of names, home addresses, social security numbers, and financial information to the Department of Labor, state wage information collection agencies, and other Federal, state, and local agencies, as well as those responsible for verifying information furnished to qualify for Federal benefits, to conduct wage and benefit matching through manual or automated means, for the purpose of determining compliance with Federal regulations and appropriate servicing actions against those not entitled to program benefits, including possible recovery of improper benefits.

16. Referral of names, home addresses, and financial information to financial consultants, advisors, or underwriters, when Rural Development determines such referral is appropriate for developing packaging and marketing strategies involving the sale of Rural Development loan assets.

17. Rural Development, in accordance with 31 U.S.C. 3711(e)(5), will provide to consumer reporting agencies or commercial reporting agencies information from this system indicating that an individual is responsible for a claim that is current.

18. Referral of names, home and work addresses, home telephone numbers, social security numbers, and financial information to escrow agents (which also could include attorneys and title companies) selected by the applicant or borrower for the purpose of closing the loan.

U.S. DEPARTMENT OF AGRICULTURE

Certification Regarding Debarment, Suspension, Ineligibility and Voluntary Exclusion - Lower Tier Covered Transactions

This certification is required by the regulations implementing Executive Order 12549, Debarment and Suspension, 7 CFR Part 3017, Section 3017.510, Participants' responsibilities. The regulations were published as Part IV of the January 30, 1989, Federal Register (pages 4722-4733). Copies of the regulations may be obtained by contacting the Department of Agriculture agency with which this transaction originated.

(BEFORE COMPLETING CERTIFICATION, READ INSTRUCTIONS ON REVERSE)

(1) The prospective lower tier participant certifies, by submission of this proposal, that neither it nor its principals is presently debarred, suspended, proposed for debarment, declared ineligible, or voluntarily excluded from participation in this transaction by any Federal department or agency.

(2) Where the prospective lower tier participant is unable to certify to any of the statements in this certification, such prospective participant shall attach an explanation to this proposal.

Organization Name **PR/Award Number or Project Name**

Name(s) and Title(s) of Authorized Representative(s)

Signature(s) **Date**

Form AD-1048 (1/92)

Instructions for Certification

1. By signing and submitting this form, the prospective lower tier participant is providing the certification set out on the reverse side in accordance with these instructions.

2. The certification in this clause is a material representation of fact upon which reliance was placed when this transaction was entered into. If it is later determined that the prospective lower tier participant knowingly rendered an erroneous certification, in addition to other remedies available to the Federal Government, the department or agency with which this transaction originated may pursue available remedies, including suspension and/or debarment.

3. The prospective lower tier participant shall provide immediate written notice to the person to which this proposal is submitted if at any time the prospective lower tier participant learns that its certification was erroneous when submitted or has become erroneous by reason of changed circumstances.

4. The terms “covered transaction,” “debarred," "suspended,” “ineligible,” “lower tier covered transaction,” “participant,” “person,” “primary covered transaction,” “principal," “proposal,” and “voluntarily excluded,” as used in this clause, have the meanings set out in the Definitions and Coverage sections of rules implementing Executive Order 12549. You may contact the person to which this proposal is submitted for assistance in obtaining a copy of those regulations.

5. The prospective lower tier participant agrees by submitting this form that, should the proposed covered transaction be entered into, it shall not knowingly enter into any lower tier covered transaction with a person who is debarred, suspended, declared ineligible, or voluntarily excluded from participation in this covered transaction, unless authorized by the department or agency with which this transaction originated.

6. The prospective lower tier participant further agrees by submitting this form that it will include this clause titled “Certification Regarding Debarment, Suspension, Ineligibility and Voluntary Exclusion - Lower Tier Covered Transactions,” without modification, in all lower tier covered transactions and in all solicitations for lower tier covered transactions.

7* A participant in a covered transaction may rely upon a certification of a prospective participant in a lower tier covered transaction that it is not debarred, suspended, ineligible, or voluntarily excluded from the covered transaction, unless it knows that the certification is erroneous. A participant may decide the method and frequency by which it determines the eligibility of its principals. Each participant may, but is not required to, check the Nonprocurement List.

8. Nothing contained in the foregoing shall be construed to require establishment of a system of records in order to render in good faith the certification required by this clause. The knowledge and information of a participant is not required to exceed that which is normally possessed by a prudent person in the ordinary course of business dealings.

9. Except for transactions authorized under paragraph 5 of these instructions, if a participant in a covered transaction knowingly enters into a lower tier covered transaction with a person who is suspended, debarred, ineligible, or voluntarily excluded from participation in this transaction, in addition to other remedies available to the Federal Government, the department or agency with which this transaction originated may pursue available remedies, including suspension and/or debarment.

•U. S.GPO: 1996-757-776/201 07

SUMMARY SHEET RD AN'S 3817 AND 3819

- RD AN's 3582 and 3654 allow for credit and ratio waivers when the applicants credit score is over 660.
- No ceilings on ratios
- Lender to document reasons for ratio waiver in writing if credit score is 660 or less or using alternative reasons. RD to concur in writing.
- Lender does not need to document reasons for credit waiver if credit score is 660 or above.
- The borrower does not have to payoff any outstanding collections or judgments!

RD AN No. 3817 (1980-D)
January 10, 2003

TO: All State Directors
Rural Development

ATTENTION: Rural Housing Program Directors, Rural Development Managers, Guaranteed Rural Housing Coordinators, and Community Development Managers

FROM: Arthur A. Garcia ***(Signed by Arthur A. Garcia)***
Administrator
Rural Housing Service

SUBJECT: Guaranteed Rural Housing (GRH)
Single Family Housing Guaranteed Loan Program (SFHGLP)
Debt Ratios Waivers

PURPOSE/INTENDED OUTCOME:

The purpose of this Administrative Notice (AN) is to elaborate upon the use of debt ratio waivers when approving loan guarantees under the SFHGLP and RD Instruction 1980-D, § 1980.345. This AN also provides information on potential compensating factors, including credit scores, to be used by the Agency when evaluating a lender' s request for a debt ratio waiver.

COMPARISON WITH PREVIOUS AN:

This AN replaces and is substantially similar to AN No. 3582 dated November 1, 2000.

EXPIRATION DATE:
January 31, 2004

FILING INSTRUCTIONS:
Preceding RD Instruction 1980-D

BACKGROUND:

Monthly debt-to-income ratios are widely used in the home mortgage industry as a measure of an applicant's cash flow or repayment ability. Two ratios are routinely calculated: 1) the "PITI" ratio consisting of the proposed monthly loan payment of principal, interest, taxes, and insurance (PITI) divided by the applicant's gross monthly income, and 2) the total debt or "TD" ratio consisting of the applicant's total long term debt obligations, including the proposed monthly loan PITI payment, divided by the gross monthly income. In the SFHGLP, an applicant meets Agency requirements for repayment ability when the applicant's PITI ratio is less than or equal to 29 percent and the TD ratio does not exceed 41 percent.

In the home mortgage industry it is common for underwriters to make exceptions to both the TD and the PITI ratio requirements. The exceptions are based on the total strength of the application and the applicant's credit worthiness which, aside from debt ratios, include variables such as employment stability and credit history. Each loan application is a separate and unique transaction composed of many factors other than the debt ratios. Debt ratio exceptions are feasible when an applicant demonstrates compensating factors indicating the capacity, willingness, and ability to pay mortgage payments in a timely manner. Generally, the stronger the compensating factors, the more flexibility there will be in debt ratio exceptions. There is not a maximum amount that the ratio standards may be exceeded. Depending on the strength of the compensating factors, PITI ratios in the mid to high 30s and TD ratio waivers in the mid to high 40s are not uncommon.

It is important that all debt ratio waivers be issued in writing by Agency staff to lenders. Lenders requesting debt ratio waivers are responsible for documenting the compensating factors supporting the waiver. Agency staff may assist lenders in determining any compensating factors associated with loan applications. If requested by a lender, Agency staff may make a preliminary determination of the appropriateness of a ratio exception for individual GRH application prior to the lender's submission of the file for a conditional commitment. In such cases, the Agency staff will notify the lender that preliminary ratio exception approvals are subject to a final review and approval by the Agency at the time of conditional commitment issuance.

IMPLEMENTATION RESPONSIBILITIES:

The National Office supports granting ratio waiver requests to applicants with legitimate compensating factors. The GRH program regulations authorize the Agency, at its discretion and on a case-by-case basis, to approve a lender's request for debt ratio exceptions. Specifically, RD Instruction 1980-D, §1980.345(c)(5) states:

> If the applicant' s total debt ratio and/or PITI ratio exceed the maximum authorized ratio, the Lender may request [RHS] concurrence in allowing a higher ratio based on compensating factors. Acceptable compensating factors include, *but are not limited to*, the applicant having a history over the previous 12 month period of devoting a similar percentage of income to housing expense to that of the proposed loan, or accumulating savings which, when added to the applicant' s housing expense and shows a capacity to
> make payments on the proposed loan. A low total debt ratio, *by itself*, does not compensate for a high PITI. (Emphasis and underscore added).

Common Compensating Factors

Common compensating factors used by the Agency under RD Instruction 1980-D, §1980.345(c)(5) include, but are not limited to:

A. The borrower has demonstrated a conservative attitude toward the use of credit and ability to accumulate savings.

B. Previous credit history shows that the borrower has the ability to devote a greater portion of income to housing expenses (i.e. the applicant has a history over the previous 12 month period of devoting a similar percentage of income to housing expense to that of the proposed loan, or accumulating savings which, when added to the applicant' s housing expense, shows a capacity to make payments on the proposed loan).

C. The borrower receives compensation or income not reflected in effective income, but directly affecting the ability to pay the mortgage, including food stamps and other similar public benefits.

D. There is only a minimal increase in the borrower' s housing expense.

E. The borrower has substantial cash reserves after closing.

F. The borrower has substantial non-taxable income not previously accounted for in the ratio computations.

G. The borrower has potential for increased earnings, as indicated by job training or education in the borrower' s profession.

H. The home is being purchased as the result of relocation of the primary wage-earner and the secondary wage-earner has an established history of employment, is expected to return to work, and there are reasonable prospects for securing employment in a similar occupation in the new area. The underwriter must address the availability of such possible employment.

I. A low TD ratio. A low TD ratio *by itself* does not compensate for a high PITI ratio, however, when other strong compensating conditions are present, a low TD ratio should be viewed as a positive mitigating factor.

Using Credit Scores as a Compensating Factor

An additional compensating factor is:

Fair Issac & Company (FICO) credit scores of 660 or higher. FICO scores of 660 or higher constitute a strong positive compensating factor that may be used by itself, or coupled with other common compensating factors, to justify a debt ratio waiver. Other compensating factors for a ratio waiver request may be listed, but need not be documented, if the FICO score is 720 or higher.

Debt ratio exceptions may also be considered and approved for loans with FICO scores under 660. A co-borrower with a credit score of 660 or higher is only one of many potential compensating factors. Indeed, borrowers with the lowest of credit scores may still become successful homeowners and repay their GRH loans as agreed.

Credit scoring technology is based on statistical models which assess how likely a borrower is to pay back a loan. A FICO credit score is based exclusively on data in a borrower's credit report. The borrower's information is measured against historical data from thousands of loan profiles and their respective loan repayment performances. The borrower is then assigned a "score" predicting their loan performance should credit be extended. Relative to the home mortgage industry, FICO scores have been found to be highly predictive. The National Office has been tracking FICO scores on a sample basis for both current and delinquent GRH loans since 1998. Home mortgage industry statistics, as well as a study of GRH loans by the National Office, indicate that borrowers with FICO scores over 660 historically experience far fewer defaults than borrowers with FICO scores under 660.

FICO scores are also known as Beacon scores, Empirica scores, and Fair Issac scores. One or more scores may be found on the applicant's credit report. If the applicant's credit report contains two scores, the lender should select the lower of the two scores as the underwriting score for that applicant. If the applicant's credit report contains three scores, the lender should select the middle score as the underwriting score for that applicant.

Similar treatment should be given to a co-borrower's credit score. If there is more than one applicant, the credit score of the primary wage earner should be emphasized. This does not mean, however, that a co-applicant's credit score should be completely ignored. Special caution should be taken if the co-applicant's FICO score is under 620. Debt ratio waivers may still be granted in such cases.

Ratio waivers should be considered for applicants with legitimate compensating factors such as those described above. The mere presence of compensating factors, however, should not automatically compel a ratio exception, especially when multiple layers of risk in the application are present. Denial of a lender's request for a ratio waiver is not an appealable decision, however, this adverse action may be reviewed if and when the guaranteed loan is denied for lack of repayment ability.

Should there be any comments or questions concerning this AN, please contact Joaquín Tremols or Robert Keyes at (202) 720-1452.

RD AN No. 3819 (1980-D)
January 10, 2003

TO: All State Directors
Rural Development

ATTENTION: Rural Housing Program Directors
Guaranteed Rural Housing Specialists
Rural Development Managers
Community Development Managers

FROM: Arthur A. Garcia ***(Signed by Arthur A. Garcia)***
Administrator
Rural Housing Service

SUBJECT: Utilizing Credit Scores for Underwriting Single Family Housing Guaranteed Loans

PURPOSE/INTENDED OUTCOME:

This Administrative Notice (AN) outlines two uses for Fair Isaacs & Company (FICO) credit scores when underwriting Guaranteed Rural Housing (GRH) loans. The purpose of this AN is to make use of credit scoring technologies to improve the credit quality of GRH loans, and to streamline GRH loan program credit history documentation requirements.

COMPARISON WITH PREVIOUS AN:

This AN replaces and is substantially similar to AN No. 3654 dated May 31, 2001. A clarification has been added concerning rent payment history verifications, under the Implementation Responsibilities section addressing streamlined documentation.

EXPIRATION DATE:
January 31, 2004

FILING INSTRUCTIONS:
Preceding RD Instruction 1980-D

BACKGROUND:

Since the early 1990's, the mortgage industry has employed FICO and other credit scoring models for risk evaluation purposes and to streamline documentation requirements for applicants whose credit scores imply less credit risk. Fannie Mae and Freddie Mac have encouraged the use of credit scores by lenders and have developed their own automated underwriting systems that evaluate risk. Increasingly throughout the 1990's and early 2000's, the residential mortgage market, including the Federal Housing Administration (FHA) and Veterans Administration (VA), have utilized credit score based technology as the basis for credit extension decisions. RHS can benefit by employing the use of credit scores, as well. By incorporating credit scores into the loan underwriting process, RHS can both improve the efficiency of its program, and help ensure that GRH loans are made to applicants with credit histories indicating a reasonable probability of successful homeownership.

The primary starting point to many automated mortgage loan origination systems has been the statistical analysis and scoring models developed by FICO, widely known as FICO credit scores. FICO scores are used for many types of lending decisions, and they are an important component of most automated mortgage loan origination systems. A FICO credit score is based exclusively on data in a credit report. Factors never considered in a credit report or credit score include gender, race, age, national origin, religion, income level, or marital status. When a FICO score is calculated, the applicant's credit report information is measured against historical data from thousands of loan profiles and their respective loan repayment performances. The applicant is then assigned a "score" predicting loan performance should credit be extended. FICO scores have been found to be highly predictive. Home mortgage industry statistics, as well as a study of GRH loans by the National Office, indicate that borrowers with FICO scores over 660 historically experience far less defaults than borrowers with FICO scores under 660. Borrowers with FICO scores under 660 statistically experience rates of defaults high enough to warrant a thorough evaluation prior to extending mortgage credit.

RHS has been tracking and studying FICO scores for loans originated under the SFHGLP. Random samplings of current and delinquent loans indicate that FICO scores have a great deal of predictive value concerning loan performance. The following FICO range descriptions have become an accepted standard in the mortgage industry:

FICO Scores of 720 and above. The risk of default is statistically very low for applicants with credit scores in this range. Scores in this range are considered to represent excellent credit histories. Underwriters may judge the applicant's credit history to be very favorable. Much less emphasis can be placed on the role of repayment ratios in determining an applicant's creditworthiness. If there was additional credit history information of significance which was not included in the credit repository's file (and therefore, not taken into consideration in the credit score), an underwriter typically should use his or her judgment to determine the effect of that information on the applicant's creditworthiness. Because of the strength of the score, the underwriter need not obtain documentation from the applicant to explain instances of derogatory credit or recent credit inquiries.

IMPLEMENTATION RESPONSIBILITIES:

FICO scores may be used to streamline documentation requirements for GRH applicants with FICO scores of 660 or higher. In addition, to ensure they present an acceptable level of credit risk, lenders should judiciously evaluate applicants with FICO scores under 660, paying particular attention to carefully screening the credit histories of those applicants with FICO scores below 620.

FICO scores are also known as Beacon scores, Empirica scores, and Fair Issac scores, and one or more scores can be found listed on a borrower's credit report. If the borrower's credit report contains two scores, the lower of the two should be used for purposes of this AN. If the borrower has three scores, the middle score should be used. Similar treatment should be given a co-borrowers credit score. If there is more than one applicant, the credit score of the primary wage-earner should be the one given the most emphasis. FICO scores generally range between 300 and 900. If no score is available the credit bureau output will be zero. Zero in these cases has the literal meaning of null, or indicating there was not enough information or credit references for the statistical model to compute a credit score value.

Streamlined Documentation when the FICO Credit Score is 660 or Higher

GRH applicants with FICO scores of 660 or above may take advantage of the streamlined documentation requirements listed below.

- A lender shall not be required to document adverse credit history waivers under RD Instruction 1980-D, §1980.345(d)(3), except for those involving a delinquent Federal debt or previous Agency loan.

- A lender shall not be required to document applicant rent payment history. If the applicant's FICO score is under 660 and the applicant has a rent payment history, the lender should obtain a rent payment reference either as part of the credit report or separately. In such cases, the lender should obtain verification of the applicant's rent payment history for the 12 month period prior to the loan application.

- No action will be necessary for any derogatory items, such as those listed in RD Instruction 1980-D, § 1980.345(d)(1), contained on the credit history except for those involving a delinquent Federal debt or previous Agency loan. For example, if the credit report indicates there have been incidents of more than one debt payment being more than 30 days late within the last 12 months, those incidents will not be investigated and considered evidence of an inadequate credit history if the FICO score is at least 660. As another example, if there is a non-Federal collection account outstanding, it too need not be investigated or considered, and there will be no requirement that evidence be furnished showing the collection account has been resolved or that arrangements for repayment have been made.

FICO Scores Between 660 and 719. The risk of default is low for applicants who have credit scores in this range. Applicants with scores in this range are considered to have good credit histories that represent an acceptable level of risk to lenders and secondary markets. As long as the underwriter determines that no significant credit information is missing from the repository's credit file, he or she typically should consider the applicant's credit history to be acceptable without performing any additional analysis. Less emphasis can be placed on the role of repayment ratios in determining an applicant's creditworthiness. Because of the strength of the applicant's credit score, the underwriter usually should not have to obtain documentation to explain instances of derogatory credit or recent credit inquiries.

FICO Scores between 620 and 659. From a statistical perspective, applicants who have credit scores in this range begin to represent a higher degree of default risk. The credit score alone, however, is not sufficient for the underwriter to make an informed decision about the acceptability of the applicant's credit history. Before approving financing for an applicant who has a credit score in this range, the underwriter typically should perform a complete assessment of all aspects of the applicant's credit history. The underwriter should consider the applicant's credit history risk in relation to other risks in the application to form an opinion about overall mortgage risk. The underwriter should generally consider an applicant with a credit score in this range acceptable as long as multiple high-risk factors (such as applicants who have recently become self-employed, payment shock, or applicants who have debt-to-income ratios in excess of benchmark ratios) are not layered.

FICO Scores Below 620. The risk of default is statistically very high for applicants who have credit scores in this range. Although these applicants account for a relatively small percentage of the total population of potential borrowers who have credit histories on file at one of the major credit repositories, research shows that they account for a disproportionate percentage of the eventual defaults. Because of the high risk of default associated with scores below 620, the underwriter should apply good judgment when he or she considers the unique circumstances of each application. The underwriter should look for compensating factors that were not considered in the development of the credit score or extenuating circumstances that can offset the credit risk reflected by the poor credit history. If there are sufficient compensating factors or extenuating circumstances that offset the higher risk of default associated with credit scores in this range, the underwriter may approve the financing. When the credit score is in this range, the underwriter should approve the mortgage application only if there is very little or no risk layering and strong compensating factors or extenuating circumstances are present to offset the applicant's high-risk credit history record. However, the FICO score should not be the sole determining factor in reaching an underwriting decision. Although a low credit score is indicative of a higher risk of default, it may still be appropriate to approve an applicant who has a low credit score based on other factors present in the mortgage application.

Applicants with FICO Credit Scores Between 620 and 659

When the FICO score falls between 620 and 659, the credit score alone is not sufficient for the underwriter to make an informed decision concerning credit history, and a full assessment ofall aspects of the applicant' s credit history is required. The lender should perform a complete underwriting analysis of the GRH loan to ensure eligibility based on RD Instruction 1980-D requirements. Any credit history waiver granted should be addressed by the underwriter and supported by plausible documentation in the loan file in accordance with RD Instruction 1980-D, §1980.345(d)(3). The underwriter should make certain that multiple high risk factors are not layered.

Applicants with FICO Credit Scores Under 620

A FICO score under 620 means that the applicant would statistically have a high likelihood of default on their loan, and that there are likely to be adverse credit history issues that will have to be addressed in the underwriting analysis. It ***does not mean*** that every applicant with a FICO score under 620 is a poor credit risk and should be rejected. There are applicants with FICO scores under 620 that will pay their loans as agreed.

Applicants with credit scores under 620 should be carefully reviewed during the lender' s underwriting analysis. Layered risk associated with the application, such as ratio waivers or credit history waivers, should be avoided unless strong supporting documentation substantiating the waiver exists. If an applicant is being considered for an adverse credit history waiver, a debt ratio waiver, or has questionable repayment income or job stability, the loan record must contain sufficient justification by the underwriter for approving the loan. The analysis should include an assessment of any compensating factors, or credit history explanations that establish the applicant' s ability and willingness to repay the proposed loan as agreed. If the lender grants an adverse credit waiver, the lender must secure documentation evidencing that the circumstances surrounding the adverse information were temporary in nature, and were beyond the applicant' s control, and have been removed so their reoccurrence is unlikely. Alternately, the lender must secure documentation evidencing that the delinquency arose from a justifiable dispute related to defective goods or services.

SUMMARY:

FICO credit scores are an indicator of default risk, and can be very effectively used as a tool for underwriter evaluations of home mortgage loan applications. Credit scores help underwriters understand the strength of an applicant' s credit history and can help to identify those applicants that may require careful underwriting attention. However, FICO scores should never be used in isolation or as the sole basis for a GRH loan underwriting decision. GRH loan applications that are rejected by lenders based on underwriting risk should be rejected based on underwriting criteria established in RD Instruction 1980-D, such as lack of repayment ability, lack of adequate and dependably available income, inadequate credit history, or collateral that does not meet the required standards.

Lender Monitoring

On an ongoing basis, Agency field staff should monitor originating lenders for adherence to GRH loan underwriting requirements, including the standards outlined in this AN. Field staff conducting lender origination monitoring reviews should pay special attention to credit scores when reviewing first year delinquencies and early defaults. For portfolio monitoring purposes, credit scores will be captured in the future for all GRH loans.

Should there be any comments or questions concerning this AN, please contact Joaquín Tremols or Robert Keyes at (202) 720-1452.

SUMMARY SHEET RD AN 3683

- RD AN 3683 allows for more flexibility in verifying income. Use the standard VOE form and one paycheck stub or one paycheck stub, the 2 most recent w-2's and a telephone verification. NO TAX RETURNS ARE NECESSARY.
- For VHDA direct originations, please do not send the tax returns to Rural Development.

RD AN No. 3683 (1980-D)
November 13, 2001

TO: All State Directors
Rural Development

ATTENTION: Rural Housing Program Directors, Guaranteed Rural Housing Specialists, Rural Development Managers, and Community Development Managers

FROM: James C. Alsop
Acting Administrator
Rural Housing Service

SUBJECT: Single Family Housing Guaranteed Loan Program
Acceptable Alternative Documentation to Verify the Applicant's Employment Income

PURPOSE/INTENDED OUTCOME:

The purpose of this Administrative Notice (AN) is to elaborate upon what forms of employment income verifications are acceptable for loans guaranteed under the Single Family Housing Guaranteed Loan Program.

The intended outcome of this AN is to establish that the Rural Housing Service (RHS) will accept verification methodologies similar to those currently acceptable to the residential mortgage industry, secondary markets, and other Federal agencies.

This AN only addresses verification of employment and income documentation for non-self-employed applicants. Documentation requirements for other types of income (e.g., self-employment, disability, child support income, etc.) are unchanged by this AN.

EXPIRATION DATE:
November 30, 2002

FILING INSTRUCTIONS:
Preceding RD Instruction 1980-D

COMPARISON WITH PREVIOUS AN:

There is no previous AN on this subject.

BACKGROUND:

Two separate but equally essential components to the Single Family Housing Guaranteed Loan Program require the Lender to determine:

1. The applicant's adequate and dependable income. This income figure is used to determine the applicant's repayment ability, [§ 1980.345(b)]
2. The applicant's adjusted annual income. This income figure is used to determine eligibility for the RUS loan guarantee. (§ 1980.347)

Traditionally, written documentation from third parties has been the preferred method of verifying information. The Lender has been required to verify the applicant's current, year-to-date (YTD), and previous year's employment earnings by obtaining:

- Form RD 1910-5, "Request for Verification of Employment" (or equivalent form) and
- Copies of the applicant's three most recent paycheck subs (to check for consistency with the information in the employer verification).

However, over the past several years, the residential mortgage industry, secondary markets, and other Federal agencies have determined that in most cases, alternative, applicant-provided documentation provides accurate and sufficient information regarding the applicant's employment income. The use of alternative, applicant-provided documentation increases the efficiency of the mortgage origination process resulting in savings of both time and money.

For these reasons, 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/FHA/VA or 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.

IMPLEMENTATION RESPONSIBILITIES:

In keeping with the standards of this Administrative Notice, Agency staff reviewing requests for guarantees under the Single Family Housing Guaranteed Loan Program should accept documentation meeting the above requirements for purposes of § 1980.353(e).

State Offices having questions regarding this AN should contact Robert E. Keyes at (202) 690-4507 or rkeyes@rdmail.rural.usda.gov.

SUMMARY SHEET RD AN 3833

- ✓ How to document self employment income

RD AN No. 3833 (1980-D)
March 19, 2003

TO: All State Directors
Rural Development

ATTENTION: Rural Housing Program Directors, Guaranteed Rural Housing Specialists, Rural Development Managers, and Community Development Managers

FROM: Arthur A. Garcia ***(Signed by Arthur A. Garcia)***
Administrator
Rural Housing Service

SUBJECT: Single Family Housing Guaranteed Loan Program (SFHGLP)
Determining Repayment Income for Self-Employed Applicants

PURPOSE/INTENDED OUTCOME:

The purpose of this Administrative Notice (AN) is to provide guidance on how to properly analyze a self-employed applicant's loan application for repayment ability. This AN addresses the following topics:

- What documentation is generally required for self-employed applicants?
- What method should the lender's underwriter use when analyzing the applicant's tax returns?
- How should the underwriter treat business-related debts that are paid with business funds, rather than personal income?

Following these guidelines will ensure processing uniformity and reduce the possibility of underwriting errors.

COMPARISON WITH PREVIOUS AN:

This AN replaces RD AN No. 3727 (1980-D) dated March 21, 2002.

EXPIRATION DATE:
March 31, 2004

FILING INSTRUCTIONS:
Preceding RD Instruction 1980-D

BACKGROUND:

Underwriting the self-employed loan applicant has always been especially challenging. Not only must the underwriter make sense out of complex tax returns, profit and loss statements, balance sheets and other related documentation, the underwriter must be able to use sound reasoning and judgement when deciding which "rules" to apply and when.

The mortgage industry has had varying success in establishing "one" way to underwrite a self-employed loan applicant. The underwriter must apply specific rules to the loan application depending on investor, insurer, or guarantor.

The SFHGLP requires the Lender to determine:

- The self-employed applicant's adequate and dependable income. [RD Instruction 1980-D, Section 1980.345(b)] This income figure is used to determine the applicant's *qualification* to repay the requested loan.

- The self-employed applicant's annual income and adjusted annual income. (RD Instruction 1980-D, Sections 1980.345(a) and 1980.348) These income figures are used in the determination of an applicant's *eligibility* for the RHS loan guarantee.

SFHGLP regulations recognize that an applicant's *qualifying* income may be different than the applicant's *eligibility* income. [RD Instruction 1980-D, Section 1980.345(c)(2)(i)] This distinction is important to remember when determining how to apply the different rules.

The annual income determination requirements in RD Instruction 1980-D, Section 1980.347(d)(2) were designed to help ensure that the program benefits go to eligible households. Consistent application of these requirements is important to ensure fairness to all self-employed applicants.

The adequate and dependable repayment income requirements in RD Instruction 1980-D, Section 1980.345(b) and (c) were designed to help ensure that borrowers will be able to make the loan payments and stay in their home. Consistent application of these requirements is important to ensure that all qualified self-employed borrowers are approved for a Guaranteed Rural Housing (GRH) loan.

DOCUMENTATION:

To permit required verification of income under RD Instruction 1980-D, Section 1980.353, self-employed applicants should submit copies of their signed individual Federal tax returns that were filed with the IRS for the most recent two years. As an alternative, the lender may obtain IRS-

issued transcripts of the borrower's tax returns, as long as the transcripts include the information from all of the applicable schedules.

The tax return documentation should be complete and include all appropriate schedules. The type of self-employment (e.g., sole proprietorship, partnership, or corporation), typically will determine which schedules are appropriate. Examples of tax return documentation include Form 1040 (Individual Income Tax Return), Schedule C (Profit or Loss from Business), Schedule F (Farm Income and Expenses), Schedule D (Capital Gains and Losses), Schedule SE (Self-Employment Tax) and Schedule J (Farm Income Averaging). Other tax forms include Form 1065 (Partnership), Form 1120S (S Corporation), and Form 1120 (Regular Corporation).

The self-employed applicant also should submit current documentation of the business' s income and expenses, including any applicable Federal tax returns that were filed with the IRS for the most recent two years as well as year-to-date profit and loss and balance statements. Depending on the facts of the individual application, the lender may require more documentation in order to determine the self-employed applicant' s income.

In all cases, the lender must obtain sufficient documentation to support its determination regarding the viability of the business and the self-employed applicant' s income. Only after the lender receives adequate documentation may the self-employed applicant' s qualifying income be accurately calculated.

For quality assurance purposes, the lender should require the self-employed applicant to sign IRS Form 4506, *"Request for Copy or Transcript of Tax Form,"* or IRS Form 8821, *"Tax Information Authorization,"* at the time of application and send the form to the IRS during the processing of the loan application. (The lender does not have to receive the information back from the IRS before closing the loan.)

<u>UNDERWRITING METHODS AND FORMS</u> :

We encourage the lender' s underwriter to use:

- Fannie Mae Form 1084, *"Cash Flow Analysis"*;
  --and--
- Fannie Mae Form 1088, *"Comparative Income Analysis"* to document a trend analysis for the borrower's business.

The lender may use the Fannie Mae forms or any documentation that provides the same information. Regardless of the analysis method used, and the documentation prepared by the

lender, the loan file must contain clear and sufficient support for the underwriter's decisions regarding the viability of the business and loan approval.

HOW TO TREAT BUSINESS DEBTS:

Traditionally, the primary business structure that many of our self-employed applicants engage in is a sole proprietorship (a business, farm, or profession). The success of this type of endeavor depends largely on the individual owner, and business income or loss is reported in the individual owner's personal tax return.

Also, although the individual owner has personal liability for all debts of the business in a sole proprietorship, business-related debts are often paid with business funds, rather than personal income.

The lender may use the following guidance regarding calculation of the sole proprietor's repayment income when completing the calculations required by RD Instruction 1980-D, Sections 1980.345(b) and (c).

1. Add the following allowable IRS deductions to net profit (item #31 on Schedule C or item #36 on Schedule F):

- Depletion (item #12 on Schedule C)
- Depreciation (item #13 on Schedule C or item #16 on Schedule F)
- Interest (item #16a. and b. on Schedule C item #23a. and b. on Schedule F)

2. Subtract all debt payments (principal and interest) that the operating expense documentation clearly shows as being paid with business funds (expressed in annual terms, not monthly) to determine the sole proprietor's repayment income.

Net profit + Depletion + Depreciation + Interest – Annual business-related debts = Repayment Income

The IRS requires that costs associated with going into business, business assets (i.e. land, buildings, vehicles, etc.), and improvements be capitalized. Although a deduction for capital expenses generally is not permitted, the IRS may allow deductions for the related expenses through depletion/depreciation and for interest paid on business-related debts. The amounts deducted, however, do not necessarily equal the payments due on business-related debts. We believe the above equation will properly address this issue and permit more qualified rural residents to be approved for a SFHGLP loan.

Business-related debts treated in this manner will not be included in the debt-to-income ratios since they were accounted for in the calculation of repayment income.

SUMMARY:

Please note that the methodology described in this AN applies only to the self-employed applicant's *qualifying* income. Underwriters must continue to follow the provisions of RD Instruction 1980-D, Section 1980.347(d)(2) regarding capital expenditures and straight-line depreciation when determining annual income for *eligibility* purposes.

State Offices having questions regarding this AN should contact Robert E. Keyes or Joaquin Tremols by calling (202) 720-1452 or by emailing to rkeyes@rdmail.rural.usda.gov or jtremols@rdmail.rural.usda.gov.

SUMMARY SHEET RD AN 3712

- Have someone applying who is not a US citizen? Review RD AN 3712 to make sure you supply the proper documentation to verify proper residency.

RD AN No. 3712 (1980-D)
February 14, 2002

TO: All State Directors
Rural Development

ATTENION: Rural Housing Program Directors,
Guaranteed Rural Housing Coordinators,
Community Development Managers, and
Rural Development Managers

FROM: James C. Alsop ***(Signed by James C. Alsop)***
Acting Administrator
Rural Housing Service

SUBJECT: Eligibility of Non-U.S. Citizens for Single Family Housing
Guaranteed Loan Program Assistance

PURPOSE/INTENDED OUTCOME:

This Administrative Notice (AN) is intended to clarify what documentation non-U.S. citizens need to supply in order to be considered for a loan note guarantee under the Single Family Housing Guaranteed Loan Program (SFHGLP).

COMPARISON WITH PREVIOUS AN:

There is no previous AN on this subject.

BACKGROUND:

Agency field staff have requested guidance from the National Office to determine what documentation is sufficient for non-citizens in order for them to be considered for a SFHGLP

EXPIRATION DATE:
February 28, 2003

FILING INSTRUCTIONS:
Preceding RD Instruction 1980-D

loan note guarantee. RD Instruction 1980-D, section 1980.346(c), limits eligibility for individuals who receive a loan note guarantee under the SFHGLP to those who:

> reside as a citizen in any of the 50 States, the Commonwealth of Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, the Commonwealth of the Northern Marianas, Federated States of Micronesia, and the Republics of the Marshal Islands and Palau, or a noncitizen who resides in one of the foregoing areas after being legally admitted to the U.S. for permanent residence or on indefinite parole.

The term "indefinite parole" is no longer a term used by the Immigration and Naturalization Service (INS). Instead, under Section 401 of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA) (8 U.S.C., Section 1611) lenders and the Agency must determine whether the applicant for a guaranteed loan is a U.S. citizen, a U.S. non-citizen national, or a "qualified alien."

Generally, a U.S. non-citizen national is a person born in American Samoa or Swains Island or after the date the U.S. acquired American Samoa or Swains Island, or a person whose parents are U.S. non-citizen nationals. Typical evidence of the relatively uncommon status as a non-citizen national includes a birth certificate or passport, and persons who are non-citizen nationals are eligible for consideration under the SFHGLP.

A "qualified alien" is defined under PRWORA (8 U.S.C., Section 1641) as:

1) an alien who is lawfully admitted for permanent residence under the Immigration and Nationality Act;
2) an alien who is granted asylum under section 208 of such Act;
3) a refugee who is admitted to the United States under section 207 of such Act;
4) an alien who is paroled into the United States under section 212(d)(5) of such Act for a period of at least 1 year;
5) an alien whose deportation is being withheld under section 243(h) of such Act; or
6) an alien who is granted conditional entry pursuant to section 203(a)(7) of such Act as in effect prior to April 1, 1980;
7) an alien who is a Cuban/Haitian Entrant as defined by section 501(e) of the RefugeeEducation Assistance Act of 1980; or
8) An alien who has been battered or subjected to extreme cruelty under section 431 of the Immigration and Nationality Act (INA).

The Department of Housing and Urban Development (HUD) will insure loans to non-permanent resident aliens provided that the borrower occupies the property as a residence, has a social security number, and is eligible to work in the United States. Despite HUD's operating policy in this regard, the Office of General Counsel has determined that the SFHGLP may not permit loans to be guaranteed unless the non-permanent alien is deemed to be a qualified alien, as described above. A list of documentation serving as evidence that a non-permanent alien is a qualified alien follows below.

IMPLEMENTATION RESPONSIBILITIES:

Effective immediately, lenders must have secured evidence that non-citizens who apply for a guaranteed loan are qualified aliens. Evidence confirming qualified alien status may be obtained either electronically through the INS automated verification system, or by obtaining documentation further described below. When combined with satisfactory proof of identity, such evidence is adequate to establish that the applicant is a qualified alien under PRWORA.

INS Automated Verification System

Lenders enrolled in the INS automated system known as the Systematic Alien Verification For Entitlements (SAVE) may use SAVE to determine an alien's status. The SAVE system provides the following information: Alien Registration Number, Verification Number, First Name, Last Name, and Immigration Status messages. Search results from SAVE should be printed out as evidence of the alien's immigration status and eligibility. Because there may be a fee assessed to lenders accessing SAVE, the use of SAVE is not required. Lenders wishing to enroll in SAVE should follow the instructions in Housing and Urban Development (HUD) Directive No. 7465.7G. Further information on SAVE may be found on the internet at http://www.ins.usdoj.gov/graphics/services/save.htm.

Documentation that a Non-Citizen is a Qualified Alien

Other than the use of SAVE, copies of specific documentation will serve as evidence that the non-citizen is a qualified alien. Any of the following documents is acceptable evidence of eligible immigration status:

1. INS Form I-551, Alien Registration Receipt Card (for permanent resident aliens);

2. INS Form 1-688B, Employment Authorization Card, which must be annotated "Provision of Law" followed by one of the provisions listed below:

    - 274a.12(c)(11), or
    - 274a.12(a)(1), or
    - 274a.12(a)(3), or
    - 274a.12(a)(4), or
    - 274a.12(a)(5), or
    - 274a.12(a)(10)

3. INS Form I-765 (Employment Authorization Document) annotated as follows:

- A3, or
- A5, or
- A10.

4. INS Form I-571 (Refugee Travel Document);

5. INS Form 1-94, Arrival-Departure Record, with one of the following annotations:

    - "Admitted as Refugee Pursuant to Section 207";
    - "Section 208" or "Asylum";
    - "Section 243(h)" or "Deportation stayed by Attorney General";
    - "Paroled Pursuant to Section 212(d)(5) of the INA;"
    - "Admitted under Section 203(a)(7) of the INA."

6. If Form 1-94, Arrival-Departure Record, is not annotated, it will still be acceptable evidence of eligible immigration status if it is accompanied by one of the following documents:

    - A final court decision granting asylum (but only if no appeal is taken);
    - A letter from an INS asylum officer granting asylum (if application is filed on or after October 1, 1990) or from an INS district director granting asylum (if application was filed before October 1, 1990);
    - A court decision granting withholding of deportation; or
    - A letter from an asylum officer granting withholding of deportation (if application filed on or after October 1, 1990).

7. A receipt issued by the INS indicating that an application for issuance of a replacement document in one of the above-listed categories has been made and the applicant'' entitlement to the document has been verified; or

8. Other acceptable evidence. If other documents are determined by the INS to constitute acceptable evidence of eligible immigration status, they will be announced by notice published in the Federal Register.

If the documentation described above appears to be altered or counterfeit, or if the alien presents unfamiliar INS documentation, the lender should complete INS Form G-639, "Application for Verification of Immigration Records," and forward it to the nearest INS District Office for review. A copy of INS Form G-639 is attached. Fully readable copies (front and back) of the original immigration documents should be attached to the INS Form G-639 when it is submitted to the INS District Office. The original documents should be returned to the non-citizen. There is a 10 business day INS processing period. The location of INS District Offices may be found on the internet at http://www.ins.usdoj.gov/graphics/fieldoffices/statemap.htm.

Notification

State-approved lenders should be notified of this AN by their respective State Offices. The National Office will notify Nationwide-approved lenders.

Should there be any comments or questions concerning this AN, please contact Joaquín Tremols at (202) 720-1465, email address jtremols@rdmail.rural.usda.gov.

Attachment

U.S. Department of Justice **OMB NO. 1115-0087**

Immigration and Naturalization Service

Freedom of Information/Privacy Act Request

The completion of this form is optional.
Any written format for Freedom of Information or Privacy Act requests is acceptable.

START HERE – Please type or print and read instructions on the reverse before completing this form.

1. Type of Request: *(Check appropriate box)*
   - ☐ Freedom of Information Act (FOIA) *(Complete all items except 7)*
   - ☐ Privacy Act (PA) *(Item 7 must be completed in addition to all other applicable items)*
   - ☐ Amendment *(PA only, Item 7 must be completed in addition to all other applicable items)*

2. Requester Information:

Name of Requester:		Daytime Telephone:
Address *(Street Number and Name):*		Apt. No
City:	State:	Zip Code:

By my signature, I consent to the following:

Pay all costs incurred for search, duplication, and review of materials up to $25.00, when applicable. *(See Instructions)*

Signature of requester:_____

☐ Deceased Subject **- Proof of death must be attached** . *(Obituary, Death Certificate or other proof of death required)*

3. Consent to Release Information. *(Complete if name is different from Requester)(Item 7 must be completed)*

Print Name of Person Giving Consent:	Signature of Person Giving Consent:

By my signature, I consent to the following: *(check applicable boxes)*

☐ Allow the Requester named in item 2 to see ☐ all of my records or ☐ a portion of my record. If a portion, specify what part *(i.e. copy of application)*

_____

(Consent is required for records for United States Citizens (USC) and Lawful Permanent Residents (LPR)

4. Action Requested (*Check One*): ☐ Copy ☐ In-Person Review

5. Information needed to search for records:
   Specific information, document(s), or record(s) desired: *(Identify by name, date, subject matter, and location of information)*

   _____

   _____

   Purpose: *(Optional: you are not required to state the purpose for your request; however, doing so may assist the INS in locating the records needed to respond to your request.)*

   _____

6. Data NEEDED on SUBJECT of Record: *(If data marked with asterisk (*) is not provided records may not be located)*

* Family Name	Given Name:		Middle Initial:
*Other names used, if any:	* Name at time of entry into the U.S.:		I-94 Admissions #:
* Alien Registration #:	* Petition or Claim Receipt #:	* Country of Birth:	*Date of Birth or Appx. Year
Names of other family members that may appear on requested record(s) *(i.e., Spouse, Daughter, Son):*			
Country of Origin *(Place of Departure)*:	Port-of-Entry into the U.S.		Date of Entry:
Manner of Entry*: (Air, Sea, Land)*	Mode of Travel: *(Name of Carrier)*		SSN:
Name of Naturalization Certifications:		Certificate #:	Naturalization Date:
Address at the time of Naturalization:		Court and Location:	

7. Verification of Subject' s Identity: *(See Instructions for Explanation)(Check One Box)*

☐ In-Person with ID ☐ Notarized Affidavit of Identity ☐ Other *(Specify)*_____

Signature of Subject of Record: Date: _____

_____ Telephone No.: ( ) -

NOTARY *(Normally needed from individuals who are the subject of the records sought) (See below)*
or a sworn declaration under penalty of perjury.
Subscribed and sworn to before me this _____ day of _____ in the Year _____

Signature of Notary _____ My Commission Expires _____

OR

If a declaration is provided in lieu of a notarized signature, it must state, at a minimum, the following: (Include Notary Seal or Stamp in this Space)

If executed outside the United States: "I declare (certify, verify, or state) under penalty of perjury under the laws of the United States of America that the foregoing is true and correct.

Signature:_____

If executed within the United States, its territories, possessions, or commonwealths: "I declare (certify, verify, or state) under penalty of perjury that the foregoing is true and correct.

Signature:_____

Freedom of Information/Privacy Act Request

INSTRUCTIONS

Please read ALL Instructions carefully before completing this form.
Applicants making false statements are subject to criminal penalties (Pub.L. 93-579.99 Stat. (5 U.S.C. 552a(i)(3)).

Are There Cases When You do not Use This Form?

Do not use this form:

(1) To determine status of pending applications, write to the office where the application was filed or call the nearest INS office;
(2) For Consular notification of visa petition approval, use Form I-824 (Application for Action on an Approved Application or Petition);
(3) For the return of original documents, use Form G-884 (Request for Return of Original Documents);
(4) For records of naturalization prior to September 27, 1906, write to the clerk of court where naturalization occurred; or
(5) For information on INS manifest arrivals prior to December 1982, write to the National Archives.

How Can You Obtain Copies of Records from INS?

Persons requesting a search for access to INS records under the Freedom of Information or Privacy Acts may submit the completed application to the INS office nearest the applicant's place of residence. Requests may be submitted in person or by mail. If an application is mailed, the envelope should be clearly marked "Freedom of Information" or "Privacy Act Request." The INS Intemet address is: http://www.ins.usdoj.gov.

What Information is Needed to Search for Records?

Please Note: Failure to provide complete and specific information as requested in Item 5 of the form, may result in a delay in processing or inability to locate the record(s) or information requested. You may access "http://www.access.gpo.gov/su-docs" for a description of DOJ/INS systems of records.

Verification of Identity in Person.

Requesters appearing in person for access to their records may identify themselves by showing a document bearing a photograph (such as an Alien Registration Card, Form I-551, Citizen Identification Card, Naturalization Certificate, or passport) or two items which bear their name and address (such as a driver's license and voter's registration).

Verification of Identity by Mail.

Requesters wanting access to their records shall identify themselves by name, current address, date and place of birth, and alien or employee identification number. A notarized example of their signatures or sworn declaration under penalty of perjury must also be provided (this Form G-639 or a DOJ Form 361, Certification of Identity, may be used for this purposes).

Verification of Identity of Guardians.

Parents or legal guardians must establish their own identity as parents or legal guardians and the identity of the child or other person being represented.

Authorization or Consent.

Other parties requesting nonpublic information about an individual usually must have the consent of that individual on Form G-639 or by an authorizing letter, together with appropriate verification of identity of the record subject. Notarized or sworn declaration is required from a record subject who is a lawful permanent resident or U.S. citizen, and for access to certain Legalization files.

Can My Request be Expedited?

To have your request processed ahead of ones received earlier you must show a compelling need for the information.

How Do You Show a Compelling Need?

A requester who seeks expedited processing must explain in detail the basis of the need and should submit a statement certified to be true and correct to the best of your knowledge and belief. You must also establish one or more of the following exists:

(1) Circumstances in which the lack of expedited processing could reasonably be expected to pose an imminent threat to the life or physical safety of an individual, or result in the loss of substantial due process rights;
(2) An urgency to inform the public about an actual or alleged federal government activity, if made by a person primarily engaged in disseminating information; or
(3) A matter of widespread and exceptional media interest in which there exists possible questions about the government's integrity which affect public confidence.

Fees.

Except for commercial requesters, the first 100 pages of reproduction and two hours of search time will be furnished without charge. Thereafter, for requests processed under the Privacy Act, there may be a fee of $ .10 per page for photocopy duplication. For requests processed under the Freedom of Information Act, there may be a fee for quarter hours of time spent for searches and for review of records. Search fees are at the following rates per quarter hour: $4.00 clerical; $7.00 professional/computer operator; and $ 10.00 managerial. Other costs for searches and duplication will be charged at the actual direct cost. Fees will only be charged if the aggregate amount of fees for searches, copy and/or review is more than $14.00. If the total anticipated fees amount to more than $250.00, or the same requester has failed to pay fees in the past, an advance deposit may be requested. Fee waivers or reductions may be requested for a request that clearly will benefit the public and is not primarily in the personal or commercial interest of the requester. Such requests should include a justification.

When Must I Submit Fees?

Do not send money with this request. When requested to do so, submit fees in the exact amount. Payment may be in the form of a check or a United States Postal money order (or, if form is submitted from outside the United States, remittance may be made by bank international money order or foreign draft drawn on a financial institution in the United States) made payable, in United States currency, to the "Immigration and Naturalization Service". A requester residing in the U.S. Virgin Islands shall make his/her remittance payable to "Commissioner of Finance of the Virgin Islands," and, if residing in Guam, to "Treasurer, Guam". **DO NOT SEND CASH AT ANYTIME.**

A charge of $30.00 will be imposed if a check in payment of a fee is not honored by the bank on which it is drawn. Every remittance will be accepted subject to collection.

Routine Uses.

Information will be used to comply with requests for information under 5 U.S.C. 552 and 552a; information provided to other agencies may be for referrals, consultations, and/or to answer subsequent inquiries concerning specific requests.

Effect of Not Providing Requested Information.

Furnishing the information requested on this form is voluntary. However, failure to furnish the information may result in the inability of INS to comply with a request when compliance will violate other policies or laws.

General Information.

The Freedom of Information Act (5 U.S.C. 552) allows requesters to have access to Federal agency records, except those which have been exempted by the Act.

Privacy Act Statement.

Authority to collect this information is contained in Title 5 U.S.C. 552 and 552a. The purpose of the collection is to enable INS to locate applicable records and to respond to requests made under the Freedom of Information and Privacy Acts.

The Privacy Act of 1974. (5 U.S.C. 552a).

With certain exceptions, the Privacy Act of 1974 permits individuals (U.S. citizens or permanent resident aliens) to gain access to information pertaining to themselves in Federal agency records, to have a copy made of all or any part thereof, to correct or amend such records, and to permit individuals to make requests concerning what records pertaining to themselves, are collected, maintained, used or disseminated. The Act also prohibits disclosure of individuals' records without their written consent, except under certain circumstances as prescribed by the Privacy Act.

Public Reporting Burden.

Under the Paperwork Reduction Act (5 U.S.C. 1320), a person is not required to respond to a collection of information unless it displays a currently valid OMB control number. We try to create forms and instructions that are accurate, can be easily understood, and which impose the least possible burden on you to provide us with information. Often this is difficult because some immigration laws are very complex. The estimated average time to complete and file this application is 15 minutes per response, including the time for reviewing the instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. If you have comments regarding the accuracy of this estimate, or suggestions for making this form simpler you may write to the Immigration and Naturalization Service, HQPDI, 425 I Street, N.W., Room 4307r, Washington, DC 20536; OMB No. 1115-0087.

SUMMARY SHEET RD AN 3818

- Payment shock of over 100% or no previous shelter costs. If these conditions exist, no ratio, credit waivers or buy down requests without compensating factors. Please see RD AN 3693 on how to document.

RD AN No. 3818 (1980-D)
January 10, 2003

TO: All State Directors
Rural Development

ATTENTION: Rural Housing Program Directors, Rural Development Managers, Guaranteed Rural Housing Coordinators, and Community Development Managers

FROM: Arthur A. Garcia
Administrator
Rural Housing Service

SUBJECT: Guaranteed Rural Housing (GRH)
Single Family Housing Guaranteed Loan Program (SFHGLP)
GRH Approved Lender Underwriting Guidelines

PURPOSE/INTENDED OUTCOME:

The purpose of this AN is to renew Agency methodology for evaluating "payment shock." The outcome of this AN is to provide underwriting guidance to SFHGLP lenders. It is the Agency's expectation that lenders will act responsibly when originating and underwriting loans under RD Instruction 1980-D.

COMPARISON WITH PREVIOUS AN:

This AN replaces and is substantially similar to AN No. 3693 released on January 8, 2002.

BACKGROUND:

Our analysis of first year delinquency continues to indicate that payment shock is a delinquency factor when other risk layering is present. The presence of payment shock is especially significant when the borrower's credit history contains derogatory information. Aside from our

EXPIRATION DATE:
January 31, 2004

FILING INSTRUCTIONS:
Preceding RD Instruction 1980-D

internal studies, our findings are supported by numerous observations from the State Offices as well as a major study by one of our largest nationwide approved lenders.

The term "payment shock" signifies the increase in housing expenses experienced by a borrower. Payment shock is defined as a percentage under the following formula:

(New Principal Interest Taxes and Insurance (PITI) ÷ Previous Housing Expense) – 1

The following three examples illustrate payment shock as a percentage.

A. The borrower's new PITI is $187.00 and their former rent was $100.00.

187.00 ÷ 100.00 = 1.87; 1.87 – 1 = .87; .87 = 87 percent
The payment shock in this example is 87 percent.

B. The borrower's new PITI is $345.00 and their former rent was $150.00.

345.00 ÷ 150.00 = 2.30; 2.30 – 1 = 1.30; 1.30 = 130 percent
The payment shock in this example is 130 percent.

C. The borrower's new PITI is $2,000.00 and their former rent $1,000.00

2,000.00 ÷ 1,000.00 = 2.00; 2.00 – 1 = 1.00; 1.00 = 100 percent
The payment shock in this example is 100 percent.

In cases where the borrower did not have prior housing expenses prior to purchasing a home, such as if the borrower was living with relatives, payment shock cannot be measured as a percentage.

IMPLEMENTATION RESPONSIBILITIES:

When conducting an underwriting analysis, lenders should be sure that:

- An applicant's credit history indicates a reasonable ability and willingness to meet obligations as they become due. If the lender grants an adverse credit waiver, they should properly document that the applicant's adverse circumstances were of a temporary nature beyond the applicant's control and have been removed, or that the delinquency was the result of a justifiable dispute relating to defective goods or services. See RD Instruction 1980-D, §1980.345(d).

- The applicant has adequate repayment ability and a history of dependable, available income to support their credit obligations, including the contemplated extension of credit. Cosigned obligations and contingent liabilities should be evaluated with care under RD Instruction 1980-D, §1980.345(c).

- The real property securing the loan must meet all Agency standards including property standards, appraisal standards, thermal requirements, and those pertaining to water and waste disposal systems (see RD Instruction 1980.313). It is imperative that lender underwriters carefully evaluate the condition of a property offered as collateral under the SFHGLP.

In cases where payment shock is 100 percent or higher as well as in cases where the applicant did not have housing expenses prior to purchasing a home, no additional risk layering (i.e., adverse credit waivers, debt ratio waivers, or buydowns) should be allowed without strong compensating factors. Acceptable compensating factors include, but are not limited to, the following examples:

- The borrower has an excellent credit history reflecting timely repayment of credit obligations;

- The borrower has a Fair Isaacs & Company (FICO) credit score of 660 or higher. A FICO score of 660 or greater is a residential mortgage industry standard that is indicative of low default probability. Ongoing review of current and delinquent SFHGLP loans has demonstrated the validity of FICO scores as a tool. The credit score itself is derived only from information pulled from a borrower's credit report;

- The borrower has demonstrated a conservative attitude toward the use of credit and an ability to accumulate savings;

- The borrower has a stable employment history over the past two years, demonstrating a dependable income stream;

- The borrower has potential for increased earnings, as indicated by job training or education in the borrower's profession.

Approved lenders should be trained by Agency staff on GRH loan program underwriting guidelines; training should be offered to lenders on an ongoing basis. Lenders are expected to document their underwriting analyses and decisions. When submitting a loan package to the Agency for approval, lenders should provide evidence that an underwriter has reviewed and approved the file. The lender that is requesting the Conditional Commitment from the Agency is responsible for underwriting the loan.

Although the Agency is not responsible for underwriting individual GRH loans, approved lenders should be periodically monitored for GRH loan program underwriting compliance. Existing lenders with incidences of high first year delinquencies or high loan losses should be subjected to quality control reviews to ensure that Agency underwriting standards are being adhered to. Newly approved lenders should have their underwriting reviewed based on the criteria outlined in RD Instruction 1980-D, §1980.309(g)(1).

State Offices having questions regarding this AN should contact Joaquín Tremols at (202) 720-1465 or jtremols@rdmail.rural.usda.gov.

SUMMARY SHEET RD AN 3694

- Credit history verification. RMCRs, MMCRs, and NTMCRs are acceptable. See RD AN 3694 for details.

RD AN No. 3694 (1980-D)
January 8, 2002

TO: All State Directors
Rural Development

ATTENTION: Rural Housing Program Directors, Rural Development Managers, Guaranteed Rural Housing Coordinators, and Community Development Managers

FROM: James C. Alsop ***(Signed by James C. Alsop)***
Acting Administrator
Rural Housing Service

SUBJECT: Single Family Housing Guaranteed Loan Program (SFHGLP)
Applicant Credit History Verification

PURPOSE/INTENDED OUTCOME:

The purpose of this Administrative Notice (AN) is to elaborate upon what forms of credit history and current debt verifications are acceptable for loans guaranteed under the SFHGLP. The intended outcome of this AN is to establish that the Rural Housing Service (RHS) will accept similar verification methodologies currently acceptable to the residential mortgage industry, secondary markets, and other Federal agencies.

COMPARISON WITH PREVIOUS AN:

This AN replaces and is substantially similar to AN No. 3587 released on November 15, 2000.

BACKGROUND:

An essential component to mortgage lending is to determine what current debt payments a loan applicant already is obligated to make, evaluate the applicant's credit history, and to establish the applicant's willingness and ability to repay the additional credit obligation represented by the requested home mortgage loan.

EXPIRATION DATE:
November 30, 2002

FILING INSTRUCTIONS:
Preceding RD Instruction 1980-D

Information lenders use to make applicant credit evaluations is typically obtained from one of the following sources:

- In-File Credit Reports: An in-file credit report is issued by one credit repository or credit reporting agency. It contains "as is" information as of the last date reported by the credit grantor subscribing or reporting to the credit repository. No information is updated or re-verified by the credit repository as a result of the mortgage credit inquiry.

- Residential Mortgage Credit Reports (RMCR): A RMCR contains merged credit information from at least two national repositories. The consumer reporting agency or bureau supplying the RMCR typically makes best efforts to re-verify accounts directly with creditors (if the account is reported to have a balance but was updated by the creditor over 90 days from the date of the credit report). The consumer reporting agency also attempts to verify the applicant's employment and residence history. The consumer reporting agency interviews the applicants when the lender has incomplete information or when it discovers information that indicates the possible existence of undisclosed credit obligations or public records.

- Merged, Tri-Merged, or Multi-Merged Credit Reports (MMCR): A MMCR is issued by a credit repository or consumer reporting agency and includes the in-file credit report information from at least two credit repositories. Merged credit reports are also known as tri-merge credit reports if the merged report contains in-file credit report information from three credit repositories.

  The MMCR must identify all the credit repositories whose information was merged into the report. The credit information from each credit repository may be presented in their entireties on the MMCR, or the consumer reporting agency may eliminate duplicate records through an automated merge process. Duplicate information need not be repeated, however, if the duplicate information is not exactly the same on each report, the MMCR must either repeat the information or include the most derogatory of the duplicate information that pertains to payment history and or current payment status.

  The MMCR, in effect, is an adaptation of the RMCR. Substantially all the information supplied on an RMCR, which is not on an MMCR (i.e. income and employment verification), is already obtained and verified independently by lenders under current regulation.

- Non-Traditional Mortgage Credit Reports (NTMCR): A NTMCR is developed by a credit reporting agency and is designed to assess the credit history for borrowers without the types of trade references normally appearing on a RMCR or MMCR. NTMCRs are typically used for those prospective borrowers who have not yet established a credit history or who do not use traditional credit. A NTMCR may be used either as a substitute for an RMCR or MMCR

for those borrowers without a credit history with traditional credit grantors, or to supplement RMCR's or MMCR's that do not have sufficient traditional credit references reported. An NTMCR may not, however, be used to enhance the credit history of borrowers with poor payment records. It may not be used to offset derogatory references found in the borrower's RMCR or MMCR.

If the information obtained through the RMCR or MMCR is not available or not sufficient for the lender to make a prudent underwriting decision, the lender may use an NTMCR that documents all available nontraditional credit references. Nontraditional credit references may include:

1. utility payment records (if utilities were not included in the rental payment);
2. rental payments;
3. insurance payments (excluding those paid through payroll deductions) such as medical, automobile, life and household or renter's insurance;
4. payments to child care providers;
5. school tuition; payments to local stores;
6. payments for the uninsured portions of any medical bills; or,
7. any other reference which gives insight into the applicant's willingness to make periodic payments on a regular basis for credit obligations.

Alternatively, rather than order an NTMCR from a consumer reporting agency, a lender may develop its own nontraditional credit history for a proposed applicant provided that the analysis includes the types of references, when available, listed above. The lender should consider only those types of credit that require the applicant to make periodic payments on a regular basis.

IMPLEMENTATION RESPONSIBILITIES:

In keeping with standards of the mortgage industry, secondary markets, and other Federal agencies administering insured or guaranteed single family housing loan programs, RHS field staff reviewing requests for guarantees under the SFHGLP should accept MMCRs, NTMCRs, as well as RMCRs for purposes of RD Instruction 1980-D, Section 1980.353(e)(4).

RMCRs, MMCRs and NTMCRs 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 reports are preferred because they contain in-file credit report information from three separate credit repositories. Dual-merged credit reports are acceptable only if that is the extent of the data available for the borrower. If only one in-file report is available for the borrower, the lender must obtain an RMCR.

While an MMCR should prove sufficient for processing most loan applications, other circumstances that require the ordering of an RMCR include:

1. The borrower disputes accounts on the MMCR as belonging to someone else; or
2. The borrower claims that collections, judgements, or liens reflected as open on the MMCR have been paid and cannot provide separate documentation supporting this; or
3. The borrower claims that certain debts shown on the MMCR have different balances or payments and cannot provide current statements (less than 30 days old) attesting to this fact; or
4. The lender's underwriter determines that it would be prudent to utilize a RMCR in lieu of an MMCR to properly underwrite the loan.

When applicable, a reference for an applicant's rental payment history, acquired separately or as part of the credit report, should be obtained by the lender for SFHGLP loans.

State Offices having questions regarding this AN should contact Joaquín Tremols at (202) 720-1465 or jtremols@rdmail.rural.usda.gov.

SUMMARY SHEET RD AN 3717

- Existing dwelling certifications. Optional use of HUD-92564-VC.

RD AN No. 3717 (1980-D)
March 1, 2002

TO: All State Directors
Rural Development

ATTENTION: Rural Housing Program Directors, Guaranteed Rural Housing Specialists, Rural Development Managers, and Community Development Managers

FROM: James C. Alsop ***(Signed by James C. Alsop)***
Acting Administrator
Rural Housing Service

SUBJECT: Single Family Housing Guaranteed Loan Program (SFHGLP) Existing Dwelling Inspections made in accordance with RD Instruction 1980-D, Section 1980.341(b)(1)(i)

PURPOSE/INTENDED OUTCOME:

The purpose of this Administrative Notice (AN) is to elaborate upon the forms of existing dwelling inspections acceptable for loans guaranteed under the SFHGLP.

The intended outcome of this AN is to establish that the Rural Housing Service (RHS) 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).

COMPARISON WITH PREVIOUS AN:

There is no previous AN on this subject.

EXPIRATION DATE:
February 28, 2003

FILING INSTRUCTIONS:
Preceding RD Instruction 1980-D

BACKGROUND:

The basic objective of the SFHGLP 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*.

Notes:
- 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 SFHGLP uses HUD Handbook 4150.2 in place of Handbook 4150.1. We are in the process of updating SFHGLP regulations to refer to the new handbook.
- 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.

COMPREHENSIVE VALUATION PACKAGE

At the same time HUD Handbook 4150.2 was introduced, HUD introduced the Comprehensive Valuation Package (CVP) as Appendix D to this handbook. The CVP has three parts.

Part I is the "Uniform Residential Appraisal Report" (URAR) and required attachments.

Part II is the "Valuations Conditions-Notice to the Lender, HUD-92564-VC" (VC Form). A home inspection is not required to complete the VC Form. The physical condition of existing building improvements is examined at the time of appraisal to determine whether repairs, alterations or additions are necessary or essential to eliminate conditions threatening the continued physical security of the property. The VC Form clearly shows the items needed to meet HUD's Minimum Property Standards or Requirements (MPS/MPR). Required repairs are limited to necessary requirements commonly referred to as the three S's Rule:

- Preserve the continued marketability of the property **(Salability)**
- Protect the health and safety of the occupants **(Safety)**
- Protect the security of the property **(Security)**

Part III is the disclosure to FHA homebuyers titled "Homebuyer Summary-Notice to the Homebuyer, HUD-92564-HS" (Homebuyer Summary).
Note: RHS does not require Part III for loans guaranteed under the SFHGLP.

COMPLIANCE WITH EXISTING PROPERTY INSPECTION REQUIREMENTS

The VC Form specifically addresses the repairs that must be completed in order for the property to be acceptable under the SFHGLP. 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.

IMPLEMENTATION RESPONSIBILITIES:

In keeping with the standards of this Administrative Notice, RHS field staff reviewing loan files under the SFHGLP are reminded of the following:

- This AN does not change the appraisal requirements in RD Instruction 1980-D, Section 1980.334.
- The VC Form does not require that a home inspection be completed. Homebuyers, however, may choose to obtain an independent home inspection to assist them in their home purchase decision.
- Properties that meet HUD's Minimum Property Standards or Requirements should be considered to be in compliance with the repair requirements in RD Instruction 1980-D, Section 1980.313(h).
- RHS requires only those repairs necessary to ensure that the dwelling is structurally sound, functionally adequate, and in good repair under RD Instruction 1980-D, Section 1980.313(h). Conditions that do not ordinarily require repair include any surface treatment, beautification or adornment not required for the preservation of the property.
- A completed VC Form should be accepted for compliance with Section 1980.341(b)(1)(i).

State Offices having questions regarding this AN should contact Robert E. Keyes or Joaquin Tremols by calling (202) 720-1452 or by emailing to rkeyes@rdmail.rural.usda.gov or jtremols@rdmail.rural.usda.gov.

SUMMARY SHEET RD THERMAL REQUIREMENTS

Major Changes to Home Inspections and Thermal Requirements

- ✓ Because of provisions in the Uniform Statewide Building Code, any property constructed after 1980, has adequate thermal performance for the RD program.

- ✓ For any property constructed prior to 1980, the home will be acceptable if there is some ceiling insulation or thermal (or storm) windows. No additional insulation will be required, even if the insulation in the dwelling does not meet the standards as currently set forth in 1924-A, Exhibit D.

- ✓ Form EC has been eliminated!

- ✓ See AN 3717 for alternative methods of documenting dwelling quality

United States
Department of
Agriculture

Rural Development
Rural Business -
Cooperative Programs
Rural Housing Programs
Rural Utilities Programs

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Phone: 804.287.1598
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*http://*www.rurdev.usda.gov/va

June 17, 2002
File: 1980-D

TO: Community Development Managers
Rural Development Managers
Rural Development, Virginia

SUBJECT: Thermal Standards for the Guaranteed Rural Housing Program
Existing Properties

Since 1980, the Commonwealth of Virginia has included thermal performance standards as part of the Uniform Statewide Building Code, which meet those set forth in RD Instruction 1924-A, Exhibit D. A study completed by the Virginia State Office showed that the costs associated with meeting these thermal requirements did not result in any cost savings in the form of reduced utility bills projected over a ten (10) year period (the average time a loan is held). Therefore, the National Office has granted a blanket waiver to the Agency's thermal standards for existing homes for a period of 18 months or until the Agency adopts new existing property thermal standards nationally, whichever comes sooner.

Please note that existing homes with no attic insulation at all or that do not have either thermal or storm windows, do not qualify for this waiver and must be brought up to RD current standards as outlined above.

As a result of this action, we are eliminating the Virginia State Form "ADEQUACY CERTIFICATION FOR EXISTING PROPERTIES", a/k/a Exhibit EC. RD personnel and lenders should dispose of this form. Lenders are still required to follow the instructions for existing property inspections and certifications as outlined in RD Instruction:

1. 1980.313, and,
2. 1980.340(a), and,
3. 1980.341(b)(1)(i)

These requirements, inspections (compliance with the HUD Handbooks 4150.2 and 4905.1) and certifications (such as water test, septic inspection, termite inspection) must be part of the lender underwriting file. Rural Development will monitor compliance during routine lender visits; therefore, lenders are not required to submit copies of the inspections and certifications to obtain RD Form 1980-17, "*Loan Note Guarantee*". The attachment to RD Form 1980-21, "*Conditional Commitment for Single Family Housing Guarantee"* will be updated to reflect this change.

We recommend that lenders review RD AN 3717, *"Existing Dwelling Inspections"*. This AN gives lenders the option of using the HUD form 92546, *"Valuations Conditions"*, to document compliance with the HUD handbook 4150.2. This AN offers alternatives to the lender to document compliance with 1980.341(b)(1)(i).

Rural Development is an equal opportunity provider and employer. To file a complaint of discrimination, write: USDA, Director, Office of Civil Rights, Room 326-W, Whitten Building, 14th and Independence Avenue, SW, Washington, D.C. 20250-9410 or call 202.720.5964 (voice and TDD).

Please contact Michelle C. Corridon at 804-287-1595 or michelle.corridon@va.usda.gov with any questions.

/s/ by Joseph W. Newbill
JOSEPH W. NEWBILL
State Director
USDA Rural Development

Cc: Submitting and Approved SFH Guaranteed Lenders, Virginia

SUMMARY SHEET RD AN 3816

The Uniform Residential Appraisal Report (URAR), Desktop Underwriter Quantitative Analysis Appraisal Report and the Loan Prospector Quantitative Analysis Appraisal Report are accepted for the GRH program.

RD AN No. 3816 (1980-D)
January 10, 2003

TO: All State Directors
Rural Development

ATTENTION: Rural Housing Program Directors, Guaranteed Rural Housing Specialists, Rural Development Managers, and Community Development Managers

FROM: Arthur A. Garcia ***(Signed by Arthur A. Garcia)***
Administrator
Rural Housing Service

SUBJECT: Acceptable Appraisal Forms
Single Family Housing Guaranteed Loan Program (SFHGLP)

PURPOSE/INTENDED OUTCOME

The purpose of this Administrative Notice (AN) is to announce that the SFHGLP now permits the lender to instruct its appraiser to use any of the following appraisal forms in relation to a SFH loan for, or refinance of a loan secured by, an owner-occupied one-family residential property:

- Uniform Residential Appraisal Report (URAR) (Freddie Mac Form 70/Fannie Mae Form 1004)
- Desktop Underwriter Quantitative Analysis Appraisal Report (Fannie Mae Form 2055)
- Loan Prospector Quantitative Analysis Appraisal Report (Freddie Mac Form 2055)

Expanding the number and type of appraisal report forms will provide lenders with more flexibility and, in some cases, result in reduced closing costs for the loan applicant.

COMPARISON WITH PREVIOUS AN

There is no previous AN on this subject.

EXPIRATION DATE:
January 31, 2004

FILING INSTRUCTIONS:
Preceding RD Instruction 1980-D

BACKGROUND

RD Instruction 1980-D, Section 1980.334(b)(1) states that the appraiser will use the most recent revision of the Uniform Residential Appraisal Report (URAR). The URAR has long been the industry standard for single-family residential mortgage appraisal reports.

During the late 1990's, both Freddie Mac and Fannie Mae developed, introduced, and began to evaluate more streamlined appraisal forms, including:

- Desktop Underwriter Quantitative Analysis Appraisal Report (Fannie Mae Form 2055)
- Loan Prospector Quantitative Analysis Appraisal Report (Freddie Mac Form 2055)

Form 2055 is very similar to the URAR except for the omission of the income and cost approaches to value. The mortgage industry and the residential real estate appraisal profession have found that these two approaches to value typically are not reliable if the proposed mortgage will be secured by an owner-occupied one-family residential property. This applies to both new and existing dwellings in most market areas.

Although Form 2055 was designed initially to be used only for mortgages processed using an automated underwriting system (AUS), both Freddie Mac and Fannie Mae expanded the use of this form and began accepting Form 2055 for manually underwritten (non-AUS) mortgages several years ago.

Industry experience has shown that, in most cases, Form 2055 provides all of the necessary appraisal information necessary to originate and underwrite a mortgage secured by an owner-occupied one-family residential property (including a unit in a condominium or PUD project).

IMPLEMENTATION RESPONSIBILITIES

Regardless of the appraisal form used, the appraiser must complete the following steps:

- Use the most recent revision of the form chosen to document the appraisal.
- Perform both an interior and exterior inspection of the subject property.
- Provide a description and analysis of the subject property, neighborhood, site, and improvements.
- Complete a sales comparison analysis including at least three (3) comparable properties, providing specific sales or financing concession information for the comparables.
- Develop the cost approach to value only in cases in which it is:

- ❑ requested by the lender, or
- ❑ considered by the appraiser to be a good indicator of value for the subject property. (As an example, the appraiser may believe that the cost approach is a good indicator of value if the dwelling is less than one year old or has been recently renovated.)

- Include an opinion of value for the site in all cases. If the site value is more than 30 percent of the total value of the property, the appraiser should provide opinions regarding whether the value of the site is typical for the area, and whether the site can be subdivided into two or more sites.
- Attach a narrative explanation supporting unusual adjustments.
- Include other comments, data, and exhibits if they are needed to adequately describe the subject property, document the analysis and valuation process, or support the appraiser's conclusions.
- Include clear, descriptive photographs (either in black and white or color) of the front, rear and street views of the subject property. Generally, photographs should be originals that are produced either by photography or electronic imaging.
- Include clear, descriptive photographs (either in black and white or color) of the front view for each comparable sale used in the completion of the appraisal. Generally, photographs should be originals that are produced either by photography or electronic imaging; however, copies of photographs from a multiple listing service or from the appraiser's file are acceptable if they are clear and descriptive.
- Provide an adequately supported estimate of market value.

SUMMARY

The SFHGLP now permits the lender to instruct its appraiser to use any of the following appraisal forms in relation to a SFH loan for, or refinance of a loan secured by, an owner-occupied one-family residential property:

- Uniform Residential Appraisal Report (URAR) (Freddie Mac Form 70/Fannie Mae Form 1004)
- Desktop Underwriter Quantitative Analysis Appraisal Report (Fannie Mae Form 2055)
- Loan Prospector Quantitative Analysis Appraisal Report (Freddie Mac Form 2055)

Regardless of the appraisal form used, the loan file must contain clear and sufficient support for the underwriter's decisions regarding the security property and loan approval.

We encourage State Offices to develop ways to distribute this AN to local appraisers. Developing an appraiser email list may be one way to share this information.

State Offices with questions regarding this AN should contact Robert E. Keyes or Joaquín Tremols by calling (202) 720-1452 or by sending an email to rkeyes@rdmail.rural.usda.gov or jtremols@rdmail.rural.usda.gov.

SUMMARY SHEET GRH REFINANCING

- ✓ Use ANs 3774 and 3783

RD AN No. 3774 (1980-D)
July 24, 2002

TO: State Directors
Rural Development

ATTENTION: Rural Housing Program Directors, Guaranteed Rural Housing Specialists, Rural Development Managers, and Community Development Managers

FROM: Arthur A. Garcia ***(Signed by Arthur A. Garcia)***
Administrator
Rural Housing Service

SUBJECT: Single Family Housing Guaranteed Loan Program
Refinancing of Single Family Housing Guaranteed Loans

PURPOSE/INTENDED OUTCOME:

The purpose of this Administrative Notice (AN) is to renew instruction to field staff involved in the Guaranteed Rural Housing (GRH) loan program of the process used to refinance existing GRH loans. A separate AN is being issued to address the renewal requirements for refinancing an existing 502 Direct loan with a new GRH loan.

COMPARISON WITH PREVIOUS AN:

This AN renews and is substantially similar to AN No. 3646, issued May 11, 2001.

EXPIRATION DATE:
July 31, 2003

FILING INSTRUCTIONS
Preceding RD Instruction 1980-D

Rural and Non-Rural Areas

- GRH refinance loans are permissible for properties in areas that have been determined to be non-rural since the existing loan was made.

Applicant Eligibility

- As part of the refinancing transaction, additional borrowers may be added to the new GRH loan. Existing borrowers may be deleted from the current loan. All applicants that will be a party to the promissory note for the new loan must meet all eligibility requirements.

Processing Requirements

- The lender will process the refinancing loan package in accordance with RD Instruction 1980-D, except when provided otherwise in this AN.

Reservation of Funds

After the lender has determined that an applicant will likely qualify for a guaranteed refinance loan, the lender or originator should request a reservation of funds to ensure that funds will be available at the time the loan is ready for final loan approval. Field staff will reserve funds upon receipt of Form RD 1980-86, "Request for Reservation of Funds" from the lender, and funds will remain reserved for 60 days.

Loan Application Documentation

Application and verification requirements of RD Instruction 1980-D, § 1980.353(c) and (e) apply, except for that portion of paragraph (c)(4) that deals with maximum interest rate and paragraph (c)(16) (purchase agreement). The following items must be addressed or documented in the lender's loan file in order for the application to be considered complete:

- Signed copy of the final loan application.
- Current credit report.
- Any late mortgage payments within the past 36 months on the existing GRH loan must be addressed by the lender and taken into consideration in the underwriting decision.
- Lender verification of applicant's current employment and income.
- Lender verification that the total adjusted income for the household does not exceed the current moderate income level established for the area.
- Lender's underwriting analysis, including applicant's qualifying ratios for the loan being refinanced. Ratios must meet requirements as stated in RD Instruction 1980-D, § 1980.345(c)(3). The monthly housing expense to income ratio may not exceed 29 percent and the total debt to income ratio may not exceed 41 percent. However, lenders may request a waiver of these ratio requirements with documentation of acceptable compensating factors.

IMPLEMENTATION RESPONSIBILITIES:

In accordance with RD Instruction 1980-D and amendments to section 502(h) of the Housing Act of 1949, the following summarizes the requirements for the GRH loan being refinanced:

Term

- Term of the new loan will be 30 years.

Interest Rate

- Interest rate of the new loan must be a fixed rate and cannot exceed the interest rate of the loan being refinanced. The interest rate of the new loan does not have to meet requirements established in RD Instruction 1980-D, § 1980.320.
- Funded buydown accounts are not permitted.

Security

- Loan security must include the same property as the original loan. The security property must be owned and occupied by the applicants as their principal residence.

Household Income

- Total adjusted income for the household cannot exceed the moderate level for the area as established in RD Instruction 1980-D, Exhibit C.

Approved GRH Lender

- An approved GRH lender must make the loan.

Loan Amount Limitations

- Maximum loan amount cannot exceed the balance of the loan being refinanced, plus the guarantee fee, and reasonable and customary closing costs, including funds necessary to establish a new tax and insurance escrow accounts.
- Subordinate financing such as home equity seconds and down payment assistance “silent” seconds cannot be included in the new loan amount. Any existing secondary financing must be subordinate to the new first lien.
- Applicants are not eligible to receive "cash out" from the refinancing transaction. However, applicants may receive reimbursement from loan proceeds at settlement for their personal funds advanced for eligible loan purposes that are part of the refinance transaction, such as an appraisal fee or credit report fee. At loan closing, a nominal amount of “cash out” to the applicants may occasionally result due to final escrow and interest calculations. This amount, if any, must be applied to a principal reduction of the new loan.
- Unpaid fees, such as late fees due the servicer, are not eligible to be included in the new loan amount.

A satisfactory payment history for the existing mortgage is considered a strong compensating factor.

- Applicants will sign all applicable RD forms including Form RD 1980-21, "Request for Single Family Housing Loan Guarantee" and Form AD-1048 "Debarment Certification".
- Notwithstanding RD Instruction 1980-D, § 1980.334 requirements, a complete Uniform Residential Appraisal Report (URAR) will be required only in cases when any accrued interest, closing costs and/or fees (other than the 2% Guarantee fee) will be financed into the loan.
- No property inspections or thermal certification are necessary. Although RHS does not require repairs to be completed for refinance transactions, the lender may require completion of repairs as a condition of loan approval. Expenses related to property inspections and repairs may not be financed into the new loan amount.

Submission Process

Once the lender has obtained all required documentation and completed underwriting and approval of the loan, the lender will submit the loan application package for Agency review. The Agency will review applications to determine that all program requirements have been met.

Use of GRH funds for the sole purpose of refinancing an existing GRH loan is considered a servicing action and a categorical exclusion under RD Instruction 1940-G, § 1940.310(e)(2). Completion of RD Form 1940-22, "Categorical Exclusion Checklist," will not be required.

Following RHS approval, funds will be obligated and a Conditional Commitment issued.

Closing Costs and Lender Fees

As stated in RD Instruction 1980-D, § 1980.324(a), the lender may establish charges and fees for the refinance loan, provided they are the same as those they charge other applicants for similar types of transactions. Lenders and the Agency should make every effort to ensure that applicants are not being charged excessive fees as part of the new loan. At this time, discount points are not eligible to be financed, except for low-income applicants. In such cases, discount points financed will not exceed two percentage points of the loan amount.

Guarantee Fee

The guarantee fee for GRH refinances will be 0.5 percent from July 19, 2002 until September 30, 2002. The Agency is committed to reassessing the fee charged on GRH refinances for Fiscal Year (FY) 2003. Lowering the fee on a permanent basis will depend on historical data on GRH refinance performance and the FY 2003 GRH appropriation, both of which are not yet complete. The Agency will advise field staff and approved lenders if the fee for refinance loans will remain at 0.5 percent for FY 2003 GRH obligations. The guarantee fee may be financed into any GRH refinancing loan. As usual, applicants may finance closing costs and fees up to 100 percent of the current appraised value. However, it is possible that the loan-to-value (LTV) of the new loan

could exceed 100 percent guarantee fee is financed. Loans may only exceed 100 percent LTV to the extent that the excess represents a financed guarantee fee. This provision applies only to GRH refinancing transactions.

Loan Note Guarantee Issuance Requirements

Once the lender has closed the loan, closing documentation should be submitted to the Agency in accordance with RD Instruction 1980-D, § 1980.361(a). Provided that the lender's loan closing documentation is adequate, a Loan Note Guarantee will be issued to cover the terms of the new loan. The Agency will process loan closings for GRH refinance loans using the same procedures used for GRH purchase loans. Once the Agency's loan closing has processed and the new Loan Note Guarantee has been issued, the Finance Office should be notified to terminate the original guarantee due to the loan being refinanced through the GRH program. Notifications should be made to Finance Office, Guaranteed Loan Branch, Attn: FC-350 or by Fax at (314) 539-3110.

Guaranteed Loan System (GLS) Reporting

All GRH refinance loans should be coded with assistance code **"326"** (GRH purchase loans should be coded "96").

Funding Limitations

There will be no limit placed on the number of refinance loans made from the allocation at this time.

SUMMARY:

The intent of the new refinance feature of the GRH loan program is to give existing GRH borrowers with satisfactory payment histories the opportunity to benefit from a lower interest rate and increase their ability to be successful homeowners. Applicants must meet all existing eligibility requirements as stated in RD Instruction 1980-D.

The Agency should give applicants with existing GRH loans that are in good standing every consideration when applying for a GRH refinance loan. GRH refinance loans may not be used as a loss mitigation measure for loans that are presently not performing or for borrowers who are not remaining current on their existing GRH loan. Delinquent GRH loans should be reviewed and evaluated using the loan servicing guidelines currently outlined in RD Instruction 1980-D, § 1980.370.

Questions regarding this AN may be directed to Joaquín Tremols or Robert Keyes of the Single Family Housing Guaranteed Loan Division (SFHGLD). They may be reached at (202) 720-1452.

RD AN No. 3783 (1980-D)
September 10, 2002

TO: State Directors
Rural Development

ATTENTION: Rural Housing Program Directors, Guaranteed Rural Housing Specialists, Rural Development Managers, and Community Development Managers

FROM: Arthur A. Garcia ***(Signed by Arthur A. Garcia)***
Administrator
Rural Housing Service

SUBJECT: Single Family Housing Guaranteed Loan Program
Refinancing of Section 502 Direct Loans with Section 502 Guaranteed Loans

PURPOSE/INTENDED OUTCOME:

The purpose of this Administrative Notice (AN) is to renew instruction to field staff involved in the Guaranteed Rural Housing (GRH) loan program of the process used to refinance Direct loans to GRH loans. A separate AN is being issued to address the requirements for refinancing an existing GRH loan with a new GRH loan.

COMPARISON WITH PREVIOUS AN:

This AN replaces and is substantially similar to AN No. 3645, issued May 11, 2001.

EXPIRATION DATE:
September 30, 2003

FILING INSTRUCTIONS:
Preceding RD Instruction 1980-D

IMPLEMENTATION RESPONSIBILITIES:

In accordance with RD Instruction 1980-D and amendments to section 502(h) of the Housing Act of 1949, the following summarizes the requirements for a Direct loan being refinanced:

Term

- Term of the loan will be 30 years.

Interest Rate

- Interest rate of the new loan must be a fixed rate and cannot exceed the interest rate of the loan being refinanced. In addition, the interest rate of the new loan does not have to meet requirements established in RD Instruction 1980-D, §1980.320.
- Funded buydown accounts, as defined in RD Instruction 1980-D, §1980.392, are not permitted.

Security

- Loan security must include the same property as the original loan. The security property must be owned and occupied by the applicants as their principal residence.

Household Income

- Total adjusted income for the household cannot exceed the moderate level for the area as established in RD Instruction 1980-D, Exhibit C.

Approved GRH Lender

- An approved GRH lender must make the loan.

Loan Amount Limitations

- Maximum loan amount cannot exceed the balance of the loan being refinanced, plus the guarantee fee, and reasonable and customary closing costs, including funds necessary to establish a new tax and insurance escrow accounts.
- Applicants are not eligible to receive "cash out" from the refinancing transaction. However, applicants may receive reimbursement from loan proceeds at settlement for their personal funds advanced for eligible loan purposes that are part of the refinancing transaction, such as an appraisal fee or credit report fee. At loan closing, a nominal amount of “cash out” to the applicants may occasionally result due to final escrow and interest calculations. This amount, if any, must be applied to a principal reduction of the new loan.
- Subordinate financing such as home equity seconds and down payment assistance “silent” seconds cannot be included in the new loan amount. Any existing secondary financing must subordinate to the new first lien.

Rural and Non-Rural Areas

- GRH refinance loans are permissible for properties in areas that have been determined to be non-rural since the existing loan was made.

Applicant Eligibility

- As part of the refinancing transaction, additional borrowers may be added to the new GRH loan or existing borrowers may be deleted from the current Direct loan. All applicants that will be a party to the promissory note for the new loan must meet all eligibility requirements.

Processing Requirements

The lender will process the refinancing loan package in accordance with RD Instruction 1980-D, except where provided otherwise in this AN.

When the Agency has determined that a 502 Direct borrower may be eligible to refinance with private credit, the option to attempt refinancing with a GRH loan may be offered to the borrower. It will be the option of the borrower to contact a GRH lender or pursue other refinancing credit.

Reservation of Funds

After the lender has determined that a 502 Direct borrower will likely qualify for a GRH refinance loan, the lender should request a reservation of funds to ensure that funds will be available at the time the loan is ready for final loan approval. Field staff will reserve funds upon receipt of Form RD 1980-86, "Request for Reservation of Funds" from the lender, and funds will remain reserved for 60 days.

Loan Application Documentation

Application and verification requirements of RD Instruction 1980-D, §1980.353(c) and (e) apply, except for that portion of paragraph (c)(4) that deals with maximum interest rate and paragraph (c)(16) (purchase agreement). The following items must be addressed or documented in the lender's loan file in order for the application to be considered complete:

- Signed copy of the final loan application.
- Current credit report.
- Any late mortgage payments within the past 36 months on the existing 502 Direct loan must be addressed by the lender and taken into consideration in the underwriting decision.

- Lender verification of applicant's current employment and income.
- Lender verification that the total adjusted income for the household does not exceed the current moderate income level established for the area.
- Lender's underwriting analysis, including applicant's qualifying ratios for the loan being refinanced. Ratios must meet requirements as stated in RD Instruction 1980-D, §1980.345(c)(3). The monthly housing expense to income ratio may not exceed 29 percent and the total debt to income ratio may not exceed 41 percent. However, lenders may request a waiver of these ratio requirements with documentation of acceptable compensating factors. A satisfactory payment history for the existing mortgage is considered a strong compensating factor.
- Applicants sign all applicable RD forms including Form RD 1980-21, "Request for Single Family Housing Loan Guarantee" and Form AD-1048 "Certification Regarding Debarment".
- Complete Uniform Residential Appraisal Report (URAR). The URAR findings will be used to determine any recapture amount due and payable.
- No property inspections or thermal certifications are necessary. Although RHS does not require repairs to be completed for refinance transactions, the lender may require completion of repairs as a condition of loan approval. Expenses related to property inspections and repairs may not be financed into the new loan amount.

Submission Process

Once the lender has obtained all required documentation and completed underwriting and approval of the loan, the lender will submit the loan application package for Agency review. The Agency will review applications to determine that all program requirements have been met.

Use of GRH funds for the sole purpose of refinancing an existing 502 Direct loan is considered a servicing action and a categorical exclusion under RD Instruction 1940-G, §1940.310(e)(2). In accordance with RD Instruction 1940-G, §1940.317(c)(4), completion of Form RD 1940-22, "Environmental Categorical Exclusion Checklist," will typically not be required because refinance transactions will not likely have the potential to adversely effect environmentally sensitive land uses or resources. However, in extraordinary circumstances, the Agency loan approval official may be aware of an environmentally sensitive situation, such as reports of chemical spills in the area or hazardous material waste sites that have been developed in the community, that may impact the application and require further analysis as prescribed in RD Instruction 1940-G.

Following RHS approval, funds will be obligated and a Conditional Commitment issued.

Recapture

As part of the Direct loan refinancing, arrangements must be made to either pay off or defer repayment of any subsidy recapture due. Any recapture amount owed as part of the 502 Direct loan payoff may be included into the amount being refinanced with the GRH loan as part of the loan balance. Alternatively, any 502 Direct recapture amount owed at the time of refinancing may be deferred if the recapture amount takes a lien position subordinate to the new GRH loan. A 25 percent discount on recapture may be offered if the customer does not defer recapture in accordance with 7 CFR Part 3550, §3550.162 or includes the recapture amount being refinanced with the GRH loan.

Closing Costs and Lender Fees

As stated in RD Instruction 1980-D, §1980.324(a), the lender may establish charges and fees for the refinance loan, provided they are the same as those they charge other applicants for similar types of transactions. Lenders and the Agency should make every effort to insure that applicants are not being charged excessive fees as part of the new loan. At this time, discount points are not eligible to be financed, except for low-income borrowers. In such cases, discount points financed will not exceed two percentage points of the loan amount.

Guarantee Fee

The guarantee fee for GRH refinances will be 0.5 percent from July 19, 2002 until September 30, 2002. The Agency is committed to reassessing the fee charged on GRH refinances for Fiscal Year (FY) 2003. Lowering the fee on a permanent basis will depend on historical data on GRH refinance performance and the FY 2003 GRH appropriation, both of which are not yet complete. The Agency will advise field staff and lenders if the fee for refinance loans will remain at 0.5 percent for FY 2003 GRH obligations. The guarantee fee may be financed into any GRH refinancing loan. As usual, applicants may finance closing costs and fees up to 100 percent of the current appraised value. However, it is possible that the loan-to-value (LTV) of the new loan could exceed 100 percent guarantee fee is financed. Loans may only exceed 100 percent LTV to the extent that the excess represents a financed guarantee fee. This provision applies only to GRH refinancing transactions.

Loan Note Guarantee Issuance Requirements

Once the lender has closed the loan, closing documentation should be submitted to the Agency in accordance with RD Instruction 1980-D, §1980.361(a). The Agency should verify that the Section 502 Direct liability has been satisfied and that any recapture owed

has been paid or deferred as a subordinate lien. Provided that the lender's closing documentation is adequate, a Loan Note Guarantee will be issued to cover the terms of the new loan. The Agency will process loan closings for GRH refinance loans using the same procedures used for closing GRH purchase loans.

Guaranteed Loan System (GLS) Reporting

All GRH refinance loans will be coded **"326"**, the same code currently used for GRH purchase loans. This coding will permit funds to be obligated from one funding source through the remainder of the fiscal year.

For tracking and data retrieval purposes, there will eventually be approximately four to five field changes or field additions to the application screens contained within GLS that must be completed as part of the refinance obligation process. Until these system enhancements are completed, field staff are requested to manually track the data. The following should be manually tracked for each 502 Direct loan refinanced with a GRH loan:

- Borrower name and case number
- Loan amount
- Recapture amount
- Was recapture included in the refinanced loan amount, or deferred as a subordinate lien?

Funding Limitations

There will be no limit placed on the number of refinance loans made from the total allocation at this time. However, overall funding availability will be monitored closely to ensure that ample funds will be available for both purchase and refinance loans.

SUMMARY:

The intent of the new refinance feature of the GRH loan program is to give 502 Direct customers, who are ready to graduate into private credit, the opportunity to benefit from GRH loan program parameters and lower interest rates or lower monthly mortgage payment. Applicants must meet all existing eligibility requirements as stated in RD Instruction 1980-D.

Questions regarding this AN may be directed to Joaquín Tremols or Robert Keyes of the Single Family Housing Guaranteed Loan Division (SFHGLD). Their telephone numbers are (202) 720-1465 and (202) 690-4507, respectively.

GRH QUESTIONS AND ANSWERS
TABLE OF CONTENTS

SUBJECT	EDITION
401K loan payments	29th
Adequate housing	5th, 22nd, 24th
Appraisals	14th
Calculating income	3rd, 10th, 12th, 22nd, 23rd, 24th
Cash back at closing	8th, 12th
Child care as an expense	8th
CAVIRS	12th, 20th
Comparable sales	3rd
Condos	2nd, 20th, 22nd, 24th
Credit History	25th, 30th
Decreasing loan amount	9th
$480 deduction	10th
EC form	5th, 7th, 14th, 31st
Eligible areas	1st
Eligible for other credit	4th, 10th, 20th
Employment history	4th, 7th
Environmental review	7th, 8th, 12th
Fannie Mae or VA rate	1st, 7th
Financing repairs	1st, 21st, 24th
Floating interest rate	13th
Form FmHA	7th
Form RECD 1980-86	3rd, 8th
Funds Availability Stm.	26th
Funds not available	4th
GLS	27th, 28th, 31st
Guarantee fee	5th, 15th, 16th, 18th, 19th, 20th, 21st
Homebuyer education	1st, 9th
Income tax returns	29th
Ineligible area	1st
In File Credit Reports	26th
In ground swimming pool	3rd
Interest rate change	5th
Inspector requirements	6th
Lead based paint	23rd
Loan application (original)	6th
Loan inspection	16th
Lot size	9th
LTV	4th
Mobile home	1st
NITC	29th

Non-borrowing spouse	15th
Original signatures	4th
Paid-in-full	31st
PC form	5th,17th, 31st
Pest inspection	14th
Planned Unit Development (PUD)	2nd, 20th
Property access	2nd
Providing cash to reduce the loan amount	4th
Private, gated community	1st
Private road	1st
Ratio waiver	1st, 23rd
Refinancing	31st
Resubmitted loan applications	1st
RD forms EC and PC	5th
Self employed applicant	8th
Septic inspection	15th
State Historic Preservation Officer (SHPO)	8th, 12th
State maintained road	2nd
Subdivision approval	19th
Surveys	13th
1A screen	6th
Ten year home warranty	1st, 16th
Title policy	21st
Termite certificates	13th
Thermal standards	14th, 19th
Underwriting the loan	3rd, 20th
Verification of employment	2nd
Wall insulation	19th
Water/sewage systems	15th, 17th, 23rd, 24th ,30th

NOTE: CORRECTIONS MADE AFTER THE ORIGINAL DISTRIBUTION OF THE DOCUMENT NOTED IN *ITALICS.*

First Edition (dtd 5/29/97)

1. Does each applicant have to take a homebuyer's class?

Yes {1980.309(f)(4)}

2. Is a home financed in the direct loan program, which is an ineligible area eligible for GRH?

No

3. Can we finance repairs in the GRH program?

~~For example, in the direct program, we can finance rehabilitation such as repair of roofs, siding, floor coverings, etc.? No, Escrow accounts can only be established for exterior development only. The main purpose for this is landscaping for new construction (1980.315).~~

See issue number 21, question 1 for clarification.

4. Can we finance a home that is located on a private road with a road maintenance agreement or a home that is served by a right-of-way? ***Please refer to AN 372. Dated 5/1/01, Subject-Road Access and Regulations 1980-D section 1980.313(b).***

5. Can we accept a loan application when the applicant owns a mobile home, not on a permanent foundation?

Yes, however you must condition for the sale of the mobile home. It must close prior to the closing of the new home, evidence must be provided that the debt has been paid in full and the loan applicant must be released from liability. ~~You can only issue the conditional commitment for 90 days, there would be no extensions.~~ **(updated 9/27/02)** ***Additional information-if the borrower is unable to sell the unit, he can rent it. Include any net rental income in the annual and repayment income calculations. Net rental income should include a 25% vacancy allowance. A mobile home, not on a permanent foundation, is not considered adequate housing (update 5/03/01).***

6. Can a ratio waiver be given?

~~Yes, up to 1% on one ratio. The lender also needs to provide written compensating factors {1980.345(c)(5)}.~~ ~~***Note: A ratio waiver is not allowed with a Buydown***~~***. (updated 9/27/02) See RD AN 3582, dated November 1, 2000.***

7. Can we accept a ten-year warranty *application* in place of the three required construction inspections?

Yes, as long as you have a 2/10 warranty and the final inspection report. Note that the other requirements such as termite, water etc. still need to be in the *lender* file.

8. Do resubmitted, previously rejected loan applications have priority over newly submitted applications?

Yes

9. Can we finance a property that is located in a private, gated community?

Yes, as long as it meets the subdivision requirements as set forth in 1980.311. ~~You will also need to condition that the lender have continuous access to the property to perform security functions. A copy of the letter from the HOA to the lender must be in our file.~~

Second Edition (dtd 6/6/97)

1. Can we finance a condominium?

Yes, ~~remember that you do not obtain an individual property survey but one of the entire development~~. You will also need to obtain information to show that the condo is on a state road or is in an approved Home Owners Association(HOA). ***A copy of the survey is no longer needed, see edition 13.***

2. Can we ever use a letter to update a Verification of Employment?

Yes, but only if you have issued a loan commitment. If there is a change in the applicant's income and you have not issued a conditional commitment or the loan is submitted for reconsideration, you must have a new VOE.

3. What information do we need in order to make a loan in a subdivision that is not currently state maintained but plans to be in the future?

~~You~~ *The lender* will need an irrevocable letter of credit, a copy of the VDOT bond, and the county resolution. You will also need to address any issues concerning the HOA.

4. What is acceptable evidence that a Planned Unit Development (PUD) is out of the hands of the developer?

Please refer to letter issued 9/29/97 that states in reviewing the requirements of the 1980-D regulation and in discussions with the National Office, <u>we will no longer require</u> that HOAs be managed by the homeowners.

Third Edition (dtd 9/5/97)

1. Can Rural Development financed comparable sales be used for GRH appraisals?

Yes, according to our State Appraiser and the National Office. Several offices have asked this question in light of the requirements of 1922-C. This instruction states that they cannot be used. According to the National Office, as long as the Rural Development comparable are arm's length transactions and best available, they will meet the requirements of USPAP and be acceptable for the GRH program.

2. Can an applicant or property be substituted on form RECD 1980-86?

No, the lender must submit a new 1980-8, 1980-24 and update all loan documents that refer to the subject property (i.e. application, underwriting form). We would also recommend updating all documents when there is a change in loan amount.

3. What are the lender and Rural Development responsibilities in underwriting the loan?

The lender is responsible for the analysis. The Agency is not underwriting the loan but determining program eligibility. We are issuing the Loan Note Guarantee to offset the risk of the 100% LTV loan; not to offset poor credit, income or property risk factors.

Yes, but there are several considerations to make. ~~First, will the HUD loan limit be exceeded for that area? If yes, then the applicant cannot provide the additional funds. The payment of additional cash cannot be used to undermine the HUD limit.~~ ***HUD loan limits eliminated 12/21/98***.

Second, would the amount of cash provided allow the applicant to obtain *conventional* credit elsewhere? If the answer is that the borrower will not eligible for other credit, then providing the additional cash will be acceptable.

Third, is the money from cash on hand or will it be borrowed? If the funds will be provided from cash on hand, is this shown on the application? If the applicant is borrowing the funds, this must be considered in the ratios. In summary, this practice is acceptable under certain conditions.

Fifth Edition (dtd 10/10/97)

1. How do we handle an interest rate change ***(increase only)*** after the issuance of the Conditional Commitment?

The lender must provide copies of the revised loan application, Form 1980-21, "Request for Single Family Housing Loan Guarantee", and underwriting analysis. The loan application should show the new interest rate. The underwriting analysis should show the new interest rate along with the updated PITI and TD ratios. These changes must be initialed by or the new form signed by the underwriter. The local office will revise the 1980-18, "Conditional Commitment for Single Family Housing Loan Guarantee", by changing the interest rate. The local office should type the revised date and reason for the change in the top right hand corner. The loan approval official will initial the change and the revised copy will be forwarded tot he lender. Local offices should not change any other dates on the form.

2. Do we round the loan amount on the 1940-3, "Request for Obligation of Funds for Guaranteed Loans", and the amount of the guarantee fee?

~~No, you do not round the amount of the loan to the next $10 as you did with direct loans. Additionally, you do not round the guarantee fee. For example: for a loan in the amount of $98,752, the fee would be $888.77($98,752 X .90 X .01). You should not round up to $889.00 or $888.80. The amount of the fee must correspond with the fee listed on Form 1980-18, "Conditional Commitment for Single Family Housing Loan Guarantee~~." ***Note: 1940-3 was eliminated as of 10/1/99.***

3. How do we know from the loan application package that the applicant does not currently own adequate housing?

There is no particular item in any of the application package forms that addresses this issue. However, if this is the case, it should be shown in Section VI, Assets and Liabilities, on the Uniform Residential Loan Application(URLA). The lender is responsible for ensuring the applicant meets the requirement of 1980-D. When the lender signs Form 1980-16, " Agreement for Participation in Single Family Housing Guaranteed/Insured Loan Programs of the United States Government", they agree to "...determine if loan applicants meet the general requirements of the Agency's guaranteed/insured loan program". This is stated in Section C, part 2, of Form 1980-16. Under part 3 of Section C, the lender agrees to "...disapprove the application where the applicant does not qualify for a guaranteed/insured loan under the requirements and procedures of the Agency". Under Section F, part 2, "The lender shall conform to all originating, servicing, reporting and operational standards imposed by the Agency in the execution of the guaranteed/insured loan program. "Under Section F, part 3, "If the lender is found to be in noncompliance with Federal or State law or regulation. Agency guidelines, or terms of this Agreement, the Agency reserves the right to take action in accordance with its laws and regulations". If a local office has a situation where the lender is not considering hat the applicant currently owns adequate housing, this should be forwarded to the State Office for consideration of appropriate actions.

4. Are homes with an in ground swimming pool allowed to be financed?

No, the current issue of 1980-D(6/21/95) does prohibit the financing of in ground swimming pool.

5. Is there a difference in calculating adjusted income and repayment income in the GRH loan or direct programs?

No, both incomes are counted in the same manner. See 1980.345, 1980.348 for GRH loans and Chapter 4 for direct. All income from all adults (regardless of if they are obligated to the note) must be counted for annual income. Only income from parties obligated on the promissory note are counted for repayment income.

Fourth Edition (dtd 10/7/97)

1. How do we handle applications during the period of time when funds are not available?

Around October 14, we expect to receive our allocation from the National Office. Until that time, local offices can accept application packages from lenders. These packages will not have completed reservation. Lenders can send the reservations to Ann in the State Office. She will hold these until we receive funds. After we receive the allocation of funds, Ann will process the reservations and forward these to the lenders. The lenders should forward these to the local offices. At that point the 48 hours processing clock will begin to run on the application. Please reassure your lenders that the funding situation is temporary and we will have adequate funds for FY98.

2. Does an applicant have to be in their current employment for a minimum of 24 months to be eligible for a GRH loan?

RD Instruction 1980.345(c)(2)(i) states that "In considering qualifying income, the Lender must determine whether there is a historical basis to conclude that the income is likely to continue. Typically, income of less that 24 months duration should not be included in qualifying income." RD Instruction 1980.354 (opening paragraph) states "...documentation that there is reasonable assurance of repayment ability...". RD Instruction 1980.345(b) states, "The applicant (and coapplicant, if applicable) has adequate and dependably available income. The applicant's history of income and the history of the typical annual income of other is the area with similar types of employment will be considered in determining whether the applicant's income is adequate and dependable." If the applicant has a stable employment history, the VOE indicates that there is a continued probability of employment, <u>and</u> the income is sufficient to repay the loan an other debts, we should not require that all applicants meet the 24 month timeframe. However, if there appears to be an erratic employment history, you should use your judgment in exercising the 24 month rule.

3. Do we need original signatures on the AD 1048, form 410-9 and form 1980-21?

You should obtain original signatures on the above forms. You can condition for these items.

4. Can an applicant provide cash to cover the gap between the loan amount and the sales price of the property?

For example, the sales contract is for $128,000 and the appraisal is $125,000. The loan amount would be $125,000 and the Loan Note Guarantee would be issued for $125,000. Can the applicant provide $3,000 for the gap between the sales price and loan amount?

4. Do we need to require that the original copy of the RD Form EC and PC be submitted in order to issue the Loan Note Guarantee?

~~Yes.~~ ***Note: both forms are obsolete.***

Sixth Edition (dtd 10/27/97)

1. Does the local office need to wait until the State Office faxes the 1A screen to the local office before issuing the Conditional Commitment?

~~Yes, the local office must also pull a UN screen and verify the loan information input by the State Office. The Conditional Commitment may be issued after this review.~~ ***Note: as of January of 2001, all local offices are processing their own obligations.***

2. How do we determine that the inspector who completed the EC form is qualified?

~~FmHA instruction 1980.341(b) states, "Inspections shall be done by a party the Lenders determines to be qualified, such as a HUD approved fee inspector." This does not mean that only HUD fee inspectors are qualified. The Lender is responsible for making the inspector suitability determination. Rural Development employees should not make any determinations that the inspector is qualified. Should employees be aware of any problems, the State Office should be notified.~~ ***As of July 2002, the EC form was eliminated.***

3. Must we document Form 1940-22, "Environmental Checklist for Categorical Exclusions" as required in the direct loan program?

Yes, please refer to Virginia Instruction 1940-G, Attachment 14, page 6, letter "o". All offices should have received a copy of this instruction during the Farmer Program training in 1994.

Seventh Edition (dtd 11/28/97)

1. What date is used to determine the correct Fannie Mae or VA interest rate?

You will use the date of the loan application. ***Clarification-if the rate floats until closing, use the date of the loan lock (9/27/02).***

2. Do we require that the original signed loan application be submitted?

No

3. What documents are needed to complete Form FmHA 1940-22, "Environmental Checklist for Categorical Exclusions"?

At a minimum, the loan approval official will need the real estate appraisal with color pictures (or color reproductions of the photos) and the flood certification form. Only in limited cases will a visit to the property be appropriate. It is the responsibility of the loan approval official to "independently evaluate environmental information submitted by or on behalf of the applicant (the lender), then must assure itself of the accuracy of that information, and make an independent decision based thereon." {FmHA AN No. 3222 (1980-D)}. The loan approval official will need to use information from the office environmental library (which includes the State Natural Resources Management Guide, floodplain maps and soil surveys) to complete the environmental review. If the local office does not have these items, please contact the State Environmental Coordinator. The National Environmental Policy Act(NEPA) requires

that the environmental review must be completed prior to the issuance of a conditional commitment for guarantee by the agency. The loan approval official cannot issue a conditional commitment subject to an environmental review {FmHA AN No. 3222 (1980-D)}.

Eighth Edition (dtd 12/8/97)

1. When the lender makes a request to the SHPO for a determination under Section 106 of the National Historic Preservation Act and the SHPO does not respond within 30 days, can we proceed with loan processing?

~~Yes, the SHPO must respond within 30 days of the request.~~

NOTE: No need to contact SHPO if no loan funds will be used for repairs to the property (as of June 2001).

2. Is there ever an incidence when child care expenses are included in the repayment ratios?

No. According to the National Office, child care expenses are not included when making a loan in the commercial market. The new 1980-D (entitled subpart 3555) will state that child care expenses will not be included in the repayment ratios.

3. What information does the lender need to verify the income of a self-employed applicant?

"Applicants deriving their income from a farming or business enterprise will provide current documentation of the income and expenses of the operation. In addition, historic information from the previous fiscal year must be presented." {1980.353(e)(1)(v)}. ***See RD AN 3727 for details (9/27/02).***

Ninth Edition (dtd 2/5/98)

1. Is there a specific lot acreage that cannot be exceeded for the GRH program?

No, there is no specific acreage. RD Instruction 1980.313(f) states, "Generally, the value of the site must not exceed 30 percent of the total value of the property. When the value of the site is typical for the area, as evidenced by the appraisal, and the site cannot be subdivided into two or more sites, the 30 percent limitation may be exceeded."

2. How do we decrease the loan amount once the loan has been obligated?

~~Submit FmHA Form 1940-10, "Cancellation of US Treasury Check and/or Obligation". Complete the form as indicated by the FMI and in the remarks section note why the loan amount has decreased. Fax the 1940-10 to Ann Marsh at (804)287-1720. After the transaction has processed, the local office may process the loan closing.~~ ***Note: as of 10/1/99, this procedure no longer applies.***

3. Is it appropriate for the borrower to take a "non-classroom" (i.e. such as those offered by VHDA or VHDA certified trainers) type of homeownership education course?

Yes. Applicants can take other forms of homeownership training such as the Fannie Mae booklet.

Tenth Edition (dtd 2/9/98)

1. Can an applicant obtain a guaranteed loan if they are eligible for another type of financing such as an FHA or VA loan?

~~No, 1980.353(c)(5) states that the application must include a "Statement from the Lender that it will not make the loan as requested by the applicant without the proposed guarantee...". This statement is included on page two of RD Form 1980-21, Request for Single Family Housing Guarantee.~~

See issue number 20, question #2.

2. Can an applicant use the $480 deduction for a child that will reside with the applicant part of the year?

The applicant can use the $480 deduction when the child resides with him/her for a portion of the year and the applicant can claim the child on his or her federal income tax return. Usually, this can be verified with a divorce decree.

Eleventh Edition (dtd /98)

This edition was skipped!

Twelfth Edition (dtd 5/1/98)

1. When and how much cash can a borrower receive back at loan closing?

The borrower should not receive back any funds at loan closing unless the amount of those funds were equal to the amount the borrower provided for the transaction. "The purpose of a loan guaranteed under this subpart must be to acquire a completed dwelling and related facilities to be used by the applicant as a primary residence. The loan may include funds for the purchase and installation of necessary appliances, energy saving measures, and storm cellars. Incidental expenses for tax monitoring services, architectural, appraisal, survey, environmental, and other technical services may be included." Please see RD instruction 1980.310 for further information.

2. Where should the Credit Alert Interactive Voice Response System(CAVIRS) number be listed?

"The loan approval official will check HUD's Credit Alert Interactive Voice Response System (CAVIRS) to determine if the applicant is delinquent on a Federal debt. <u>The Lender will clearly document both its CAVIRS identifying number and the borrower and co-borrower's CAVIRS access code near the signature line on the mortgage application form</u>." Please see RD Instruction 1980.345 for further information.

3. Can we condition for the receipt of the State Historic Preservation Officer (SHPO) response for properties that are more than 50 years old?

No. The loan approval official must complete an environmental review prior to the issuance of the Conditional Commitment. Please see AN 3380 (1980-D) for more details.

Please note that the SHPO has a new address:
2801 Kensington Avenue
Richmond, VA 23220

NOTE: No need to contact SHPO if no loan funds will be used for repairs to the property (as of June of 2001).

Thirteenth Edition (dtd 5/22/98)

1. What date and Fannie Mae rate do we use when the borrower does not lock in an interest rate at loan application?

If the borrower chooses to float the rate (this should be indicated Form RD 1980-21), the local office will need to condition that any increase in interest rate will require new underwriting of the repayment ratios. The date of the Fannie Mae rate will be the date the borrower locked the interest rate. The lender must provide evidence that the borrower locked-in on a particular date. If the borrower does not float the rate, the date of the Fannie Mae rate is the date of the loan application.

2. Do we always require a new survey when making a guaranteed loan?

Not always. In general, survey coverage for the lender's title policy will be available when the existing survey is less than 10 years old and the current owner signs an affidavit stating that there are no charges to the property (i.e. fences and buildings). There is no owners title coverage available unless a new survey is completed.

Local offices use the survey to obtain additional information about the status of flood hazard areas, wetlands, and other environmental issues. As discussed in Q and A #7, dated November 28, 1997, a full environmental review must be completed prior to the issuance of the Conditional Commitment. This is done through the use of the real estate appraisal and, possibly, the flood certification form. The survey was used as additional information, not to make the original environmental determination.

Local offices use the survey as additional information in determining if the property is located on a state maintained road. Local offices are making this determination through the use of the real estate appraisal, prior to the issuance of the Conditional Commitment.

In summary, a new survey will not be needed if the lenders title policy offers survey coverage. Local offices should make a determination concerning environmental and state maintained road issues from the he real estate appraisal. Lenders who fail to provide factual information at the time of application for the Conditional Commitment concerning these issues (either through error or fraud) could jeopardize the loan guarantee, and risk suffering a reduction or forfeiture a loss claim.

Please replace the current condition for surveys with the following:

> A new survey will not be required when survey coverage in the lender's title policy exists.
> If survey coverage is not available, a new house location survey must be submitted with the loan closing package.

3. Do the requirements of RD AN NO. 3395 (1924-A), dated April 20, 1998, apply to the GRH program?

AN 3395 outlines the acceptability of the National Pest Control Association's forms NPCA-99a, NPCA 99b, and NPCA-1 for the evidence of either chemical soil treatment for new construction or certification inspection for existing homes. The HUD form 92052 is obsolete. These forms are acceptable for use in the GRH program. Please reference AN 3395 for guidance.

Fourteenth Edition (dtd 6/19/98)

1. What type of appraisal review does the loan approval official complete before issuing the Form RD 1980-18, Conditional Commitment for Single Family Housing Loan Guarantee?

An administrative review is the least detailed and will done on all appraisals. It is made to determine whether the appraisal presents an appropriate value for the property based on market conditions. The reviewer determines whether the appraisal is complete, the mathematics are correct, that there is a proper number of current comparables, and that both the cost and comparable sales approaches were used to determine market value. The loan approval official will complete Form RD 1922-15. A technical review may be requested by the loan approval official when problems are detected on the administrative review.

These problems must be significant and result in an appraisal which does not support the value conclusion. Please see RD Instruction 1922-C, Exhibit D for more information.

2. Is there any occasion in which the thermal standards are not met?

~~Yes, but only for an existing dwelling. There can be some instances when the inspector cannot verify the insulation due to accessibility problems or when insulation cannot be added due to space constraints. The inspector must document that the cost to heat and cool the dwelling is not significantly greater than those costs for a dwelling that meets the thermal standards {RD Instruction 1980.313(f)}.~~
The thermal standards as outline in 1924-A, Exhibit D do not apply to Virginia. See the unnumbered letter dated June 17, 2002.

3. What is a heated basement or crawl space?

A heated basement or crawl space exists where there is a constant, year-round heat source which maintains a minimum temperature of 50 degrees Fahrenheit. There must be duct work to the basement or crawl space; a furnace located in a basement or crawl space is not sufficient.

Fifteenth Edition (dtd 8/3/98)

1. Is there a short cut to calculating the guarantee fee?

~~Yes, divide the principal amount of the loan by 110.11.~~ ***Note: this statement is not valid after 10/1/00.***

2. When a home served by a community water system is guaranteed, how do we meet the requirement that an interested third party be available to enforce operation {RD Inst. 1980.313(c)}?

The Commonwealth of Virginia Health Department has a series of processes to monitor community water systems. If the system should fail, which is unlikely, the Commonwealth will appoint a receiver to operate the system. Therefore, there does not need to be a legal binding agreement which allows interested third parties to run the system.

3. Do we require a financial statement on a non-borrowing spouse?

No. The regulations do not require this documentation.

4. Is the Health Department required to perform the water test or "walk over" septic inspection?

No. In the majority of Virginia counties, this is performed by a private laboratory or contractor. The Health Department monitors system installation at the time of original installation or upgrade.

5. Are individual well and septic systems covered by the Clean Water Act or Safe Drinking Water Act?

No. Those acts apply to systems which are not individual. The coliform bacteria test for individual wells and a "walk over" inspection for the septic system is required at the time of transfer of the property.

Sixteenth Edition (dtd 8/13/98)

1. When do we send the check for the Guarantee Fee to lockbox?

RD Instruction 1951-B, paragraph 1951.55 requires that checks be recorded upon receipt. All collections must be kept in a locked fireproof safe, or in a locked cabinet until forwarded to the lockbox. Funds must be forwarded if the amount received during the business day is $1000 or more. Funds must be forward

every three days or each Friday for amounts less than $1000. It has come to our attention, that offices are holding checks until all loan conditions are met which does not meet the requirements of RD Instruction 1951-B. In order to safeguard our Guaranteed Fees full compliance is required immediately. Rural Development Managers are required to review and monitor collections in the local offices.

2. What notice is required to the lender to cancel a loan obligation?

The lender will be sent a letter allowing them 30 days to submit the necessary information to issue a Loan Note Guarantee. If the information is not sent during this timeframe, another letter will be sent requesting the missing information give the lender **appeal rights**. (see page 82 of 1980-D). If this information is not received after the second timeframe expires, the obligation will be canceled. **REMINDER**: All Virginia Rural Development offices should be using the new Conditional Commitment attachment released August, 1998.

3. If you do not issue a Loan Note Guarantee to a lender due to the lender's failure to meet loan conditions, how do we request a refund of the Guarantee Fee?

Please notify Ann Marsh, State Loan Technician, Single Family Housing Division using the following format: In a memo give the name and case number of the borrower and the name, address, and Tax ID number of the approved lender who will be issued the refund check. The memo should read as follows: "Due to the lender's failure to comply with the conditions set forth in the Conditional Commitment dated _____, Rural Development has canceled the loan obligation and is requesting a refund of the guaranteed fee in the amount of $_____. Please remit the refund check to the above mentioned lender." Ann will fax this information to the Finance Office and the check will be issued within approximately 14 days. ***Note: Since Ann is longer assigned to the State Office, please fax the information to Gwen Fender or Michelle Corridon.***

4. What is acceptable documentation for the 10 year home warranty?

A copy of the completed application signed by all the necessary parties.

Seventeenth Edition (dtd 9/28/98)

1. When can the builder sign the PC form?

~~The builder can sign the PC form when he/she offers a 10 year home warranty {RD Instruction 1924.5(f)(1)(iii)(C)(5)}.~~ ***PC form eliminated***.

2. When a house is served by an individual well and septic and connection to the public water and sewer is available, is there a requirement to hoop up to the public system?

Not necessarily. If the well and septic are functioning properly and the local government body does not require hook-up upon property transfer, there is no requirement to hook up to the public system.

Eighteenth Edition (dtd 11/3/98)

1. What is the factor to include the guarantee fee in the loan amount?

~~Multiply the principal amount of the loan by 1.010101 or divide the principal amount by .99~~. ***Note: this is not valid after 10/1/00.***

2. When a lender is originating a loan for VHDA, what lender identification number is used on the 1980-86, "Reservation of Funds"?

VHDA's identification number which is 540921892.

3. When transmitting the guarantee fee to the lockbox, do we include the 1980-19, "Guarantee Loan Closing Report"?

No. The 1980-19 must accompany the fee transmitted from the lender to the local office.

Nineteenth Edition (dtd 3/18/99)

1. What is the factor to include the guarantee fee in the loan amount?

~~Multiply the principal amount of the loan by 1.010101 or divide the principal amount by .99. AN 3412 issued on September 9, 1998 is incorrect. If the fee will not be included in the loan, multiply the loan amount by 1%. Round your figures to the nearest tenth~~. ***Note: this is not valid after 10/1/00.***

2. What R factor of insulation is required in the wall?

In an existing home we do not require that the wall insulation be certified as this area is not accessible. In a home to be constructed, the insulation must meet the CABO Model Energy Code (1995) for the area in which the home is located. The PC form will provide certification that this requirement is met.

3. What are the qualifications for an existing subdivision to be eligible for financing in the GRH program?

RD Instruction 1980.311(c) requires that an existing subdivision be approved by the local, state, or Federal government body. "An existing subdivision is one in which the local government has accepted the subdivision plan, its principal developments and rights-of-ways, the construction of streets, water and water/waste disposal systems, and utilities; is at a point which precludes any major changes; and provisions are in place for continuous maintenance of the streets and the water and water/waste disposal systems." In Virginia, most localities have a system in place to review subdivisions and, therefore, can be assumed that the subdivision is approved by the local government. A dwelling located in a subdivision served by an Home Owners Association(HOA) may be accepted when the project has been approved or accepted by HUD, VA, Fannie Mae, or Freddie Mac. HOA's do not have to be turned over the homeowners in order to be eligible for GRH financing.

Twentieth Edition (dtd 5/6/99)

1. If a loan applicant had a government mortgage loan (ex. FHA), the foreclosure occurred over 36 months ago but the CAIVRS number indicates a delinquent government debt, how do handle the request for credit?

The lender cannot deny credit based on the CAIVRS number alone. If there is sufficient evidence to show that the delinquency has been resolved, the loan may be guaranteed. In the above example, since the foreclosure occurred more than 36 months ago and a claim had been paid by FHA, the loan may be guaranteed {RD Instruction 1980.345(f)}.

2. If an applicant is eligible for an FHA, VA, or other government loan, can we deny a Rural Development guaranteed loan?

No. The borrower would have to qualify for conventional financing to be denied a guaranteed loan.

3. What are the requirements for financing condominiums?

The project and HOA must meet the criteria of HUD, VA, Fannie Mae, or Freddie Mac. The documentation must be provided by the loan applicant to the lender and retained in the lender case file.

4. What is the proper documentation of acceptance of an HOA by Fannie Mae?

The lender completes a certification form (FNMA type E PUD Project Approval and Warranty) as part of the loan package. The form should indicate that the project is in the hands of the homeowners and the appraiser has included a description of the project and information about the HOA fee.

Twenty-first Edition (dtd 4/14/00)

1. Can we finance repairs to the house with a GRH loan?

Yes, loan funds can be used to provide special design features or equipment necessary to accommodate a physically disabled member of the household, necessary purchase appliances, and upgrade energy efficiency {RD Instruction 1980.310)}. However, escrow accounts are only used for exterior development {RD Instruction 1980.315)}.

2. What is the procedure when the GRH fee is not included (or the incorrect fee) in the loan closing package?

The entire package will be returned to the lender with a cover memo of explanation. If the package is not made whole within 30 days, steps will be taken to de-obligate the loan. See Q and A #16, questions 2 and 3.

3. Do we require a copy of the title policy/commitment for our file?

No. The lender will retain a copy in their file. The Attachment to the Conditional Commitment will be changed and distributed to Rural Development employees and lenders.

Twenty-Second Edition (dtd 1/26/01)

1. Can commission or bonus income in addition to base pay be counted for annual and repayment income?

Yes, if the Verification of Employment indicates continuance of this type of income.

2. Can we use finance a condo?

Yes, the condo development and the Home Owners Association must be approved by HUD, VA, Fannie or Freddie.

3. If we receive a request for loan guarantee, the applicant previously owned property, and relinquished his interest as a result of a divorce, what documentation do we need to show he no longer owns real estate in the local commuting area?

A copy of the court affirmed separation agreement, divorce decree or a copy of the deed. Any of these documents would be acceptable.

Twenty-Third Edition (dtd 1/26/01)

1. Can commission or bonus income in addition to base pay be counted for annual and repayment income?

Yes, if the Verification of Employment indicates continuance of this type of income. Consideration should also be given the length of time the applicant has been employed by the company and the amount of time the applicant has been employed in that type of work {RD Instruction 1980.345((C)(2)}.

2. If an applicant has ratios that exceed 29 and 41 and the credit score exceeds 720, does the lender need to provide a written waiver request?

No, please see RD AN 3582, dated November 1, 2000 for more details.

3. How does RD AN 3597 (Residential Lead-Based Paint Hazard Reduction) effect the GRH program?

The lender is responsible for compliance with 24 CFR 35; therefore, the GRH staff will monitor compliance during lender visits. Rural Development staff do not have to collect any information for the agency case file.

Twenty-Fourth Edition (dtd 2/24/01)

1. Can a loan be guaranteed for purchase plus repairs? Is there a limit to the type or dollar value of the repairs?

Yes (please note this is a change from Q and A 21). The appraisal should be done on an "as repaired" basis and the loan note guarantee issued after all repairs are complete. A Satisfactory Completion Statement or other similar can document completion of the repairs.

2. Do we require a water test for a community water system?

Yes. The lender should retain a copy of the most recent Virginia Department of Health (VDH) water test in their file. VDH tests community water systems on a quarterly basis. In some cases where there are system problems, the test is completed monthly.

Twenty-Fifth Edition (dtd 4/26/01)

4. How many months must an applicant be out of bankruptcy before they would be eligible for a GRH loan?

1980.345(d)(2)(ii) requires that bankruptcy discharged for more than 36 months not be used as an indicator of unacceptable credit, regardless of the type of bankruptcy. HB-1-3550 (direct loan program) states that an applicant who successfully completes a bankruptcy debt restructuring plan and demonstrates a willingness to meet obligations when due is eligible for a loan within 12 months. Therefore, in the GRH program, Chapter 7 bankruptcy must be discharged for a minimum of 36 months and Chapter 13 (or other similar types of plans) must be discharged for one year.

A credit waiver may be acceptable if the reasons meet the requirements of 1980.345(d)(3). The lender must provide documentation and the Rural Development official must issue a concurrence letter.

5. Are Non-Sufficient Funds (NSF) checks considered unacceptable credit?

No, NSF checks are not listed an indicator of unacceptable credit per 1980.345(d)(1).

6. Can time attending high school or college be used in determining adequate and dependable income?

   Yes, recent students do not have to be on the job for two years prior to obtaining a GRH loan. The applicant must be employed in a permanent, non-probationary position.

7. When a household has an adult who is not employed, do we require a notarized statement that they will not obtain employment within the next 12 months?

   A statement is necessary but it does not have to be notarized.

8. Is there an upper limit on the total debt ratio when requesting a ratio waiver?

   No. Please see RD AN 3582 for details.

Questions and Answers #26 (dtd 7/13/01)

1. Do we still require the funds availability statement for GRH loans?

Section 1980.353(c)(14) requires that the borrower sign a funds availability statement. Because of the requirement to reserve each loan in the GLS reservations system, this requirement is outdated. Per the National Office, we no longer will require this as part of the loan file.

2. We have received a "merged infile credit report". Is this type of report acceptable under RD AN 3587, "Applicant Credit History Verification"?

Yes, if it specifies that the information was obtained from three different credit-reporting bureaus and rental history.

3. We received an infile credit report that states "This report contains information supplied by the repositories names above. Its contents have not been verified by this agency and may contain duplicate information. While this report is being used for some real estate lending purposes, it is not a RMCR as defined by FNMA, FHLMC, and FHA/VA guidelines." Is this report acceptable under RD AN 3587, "Applicant Credit History Verification"?

Per the National Office, this report would be acceptable.

Questions and Answers #27 (dtd 7/19/01)

1. What is the proper way to enter lender information into the Reservations System?

The submitting lender is either the branch of a mortgage institution or a mortgage loan broker. The approved lender is the underwriting lender. Some approved lenders retain the loan for servicing, others sell the loan servicing to another company.

In order to use the reporting capabilities of GLS to the fullest extent, it is necessary to indentify all of the "players". Most mortgage institutions have a separation of duties in origination and underwriting. So, if your local branch originates but does not underwrite the loan, then it is necessary to indentify the local branch as the submitting lender and the underwriting branch as the approved lender. If the approved lender does not retain the servicing, then it is necessary to indentify the servicing lender (if known at the time of reservation).

For example, Prism Mortgage in Dublin originates the mortgage. Another Prism office in Maryland underwrites the loan. Chase is the default servicer. The reservation would indicate Prism in Dublin as the submitting lender, the Prism office in Maryland as the approved lender, and Chase as servicing lender. Another lender in this type of arrangement includes United First Mortgage with VHDA as the servicer.

Changes to the lender database in GLS must always be performed by the State Office. Please email the necessary information to Michelle or Gwen.

2. How do we change the servicing office code in GLS?

To change the servicing office in a loan that has been obligated and or closed, you will have to do a 9G transaction to change the PLAS side. However, to change GLS, you will have to send a request to Ella Hemmer in the Finance Office. Fax your request to 314-539-3110. It is expected in the future to have a 9G transaction in GLS that will change both systems.

3. How do we change the loan amount or loan obligation date after obligation?

See the memo (second update) from Finance Office dated July 10, 2001.

4. How do we change the interest rate after the loan has been obligated?

The change can be made during the loan closing transaction.

5. How do we know when Finance Office has updated my obligation amount and/or obligation date?

Check the GLS request list screen. When you enter the information to find the borrower (reservation number, social security number, etc.), the borrower selection box should pop-up at the bottom. It should show the loan as obligated.

Questions and Answers #28 (dtd 7/19/01)

This edition was skipped!

Questions and Answers #29 (dtd 5/14/02)

1. When do we need complete Federal income tax returns for GRH applicants?

Returns are required for self-employed loan applicants only (see RD AN 3727 for details). W-2's may be used for income verification for non-self-employed applicants in accordance with RD AN 3683. As opposed to the Section 502 direct loan program, tax returns are not used to verify that income is properly reported.

2. Are 401K loan payments included in the total debt (TD) ratio?

No. In order to be consistent with other government lending programs, these loan payments will not be included in the TD ratio.

3. How do we handle loan processing when NITC is not operational?

We should continue to issue loan reservations if adequate funds are available. For the balance of fiscal year 2002, adequate funds will be available. Since the reservation confirmation form is not available when NITC is not operational, use Form RD 1980-81, *Request for Reservation of Funds*, to confirm the

reservation to the lender. The local office staff should keep track of reservations issued and enter them immediately after NITC is available.

Local office staff should also issue Form RD 1980-18, *Conditional Commitment for Single Family Housing Loan Guarantee*. Please use the blank form option on GLS to prepare the necessary forms. Review of packages should be done using the GRH package review form (aka the yes/no checklist, a Virginia developed form) in order to check basic eligiblity for the GRH program. The loan processing offical may need to condition for some items such as the borrower cross-reference check. Loan packages should be entered immediately after NITC is available.

Loans closed by the lender prior to obligation in GLS will need to be sent to the Finance Office for closing. Please indicate in your cover memo the circumstances why the closing date preceeded the obligation date (NITC/GLS not available). Please send the memo plus RD form 1980-19, *Guaranteed Loan Closing Report*, to FO, mail code FC 350.

NOTE: all of the above would also apply if web GLS was not operational. However, you would not be able to use the blank form option in GLS. Therefore, it is important that local offices keep a small supply of blank forms available for this type of situation.

Questions and Answers #30 (dtd 8/6/02)
State Meeting Questions

1. Is a cistern an acceptable water source?

No. The HUD Handbook 4510.2 states springs, lakes, streams, and cisterns are not acceptable water sources. A recent search of *All Regs* and the HUD web site, show no change to this prohibition. Additionally, as discussed at the state meeting, we do not believe that these types of water sources have easily measured flow (adequate and dependable source) and, in some cases, are not accepted by the market place (a valuation issue).

2. Do we still require three years of rental verification?

In most cases, yes. If the rental information is not readily available and if the applicant has good credit (i.e. good credit scores), then three years of rental data would not be required.

Questions and Answers #31 (dtd 9/11/02)

1. We have a request for guarantee on a house that is 9 months old but is currently occupied. Do we need the construction inspections or the HUD Handbook certifications?

The definition of a newly constructed dwelling is a dwelling unit that is proposed construction, a unit under construction or a completed unit that is less than one year old and not occupied as a dwelling unit. Therefore, in this case the property is existing and must meet the requirements of the RD Instructions 1980.313, and, 1980.340(a), and, 1980.341(b)(1)(i).

2. How do we close out GRH accounts that have been refinanced (GRH to GRH)?

Send RD Form 1980-49 to the Finance Office FC-350. Indicate in Box 10 a “3”, terminate guaranteed, refinancing. Or send a memo indicating the same.

3. Is it necessary to enter ethnicity into GLS borrower screens?

Yes. According to the Finance Office-" As part of the implementation of the RDAPTS software into GLS, the borrower screens were changed to meet requirements by OMB and Civil Rights to capture the new race and ethnicity of applicants/borrowers. Under the new race and ethnicity codes, the applicant must be identified as either "Hispanic or Latino" or "Not Hispanic or Latino" and Race then selected. Race could be either one or multiple races. We are currently working to change the system to accommodate the ethnicity and multiple races. However, the input of a race is required. In some cases, the race of the borrower is not listed on the 1980-86 or the application. Also, the ethnicity may be listed, but not the race. The question that has arisen is: 'What race should be entered into GLS if the ethnicity is Hispanic or Latino but no race is indicated?' Based on direction from Cheryl Prejean Greaux of the Civil Rights Office, the race code of any customers identified as Hispanic should be converted to white and the ethnicity should be Hispanic/Latino if the race is not indicated by the applicant or lender."

4. What is the proper way for lenders to notify USDA that a loan has been paid in full?

The lender should indicate paid off accounts in their quarterly electronic report to the Finance Office.