

# SINGLE FAMILY HOUSING GUARANTEED LENDER HANDBOOK



## Colorado



Committed to the future of rural communities.

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Additional copies of this handbook and Guaranteed Loan Forms are available from your local Rural Development Office or on our web site at [www.rurdev.usda.gov/co/sfhguarantee\\_lender.htm](http://www.rurdev.usda.gov/co/sfhguarantee_lender.htm).



# Guaranteed Rural Housing Loan Program

## **Introduction**

Rural Development offers mortgage lenders a user-friendly program to help individuals and families who are not eligible for conventional financing, and who do not exceed moderate income levels, purchase new or existing dwellings for use as a primary residence in rural areas.

Rural areas are communities under 10,000 population and rural in character. Brighton, Canon City, Clifton, Durango, Fort Morgan, Montrose, and Sterling are in excess of 10,000 population, but are considered eligible communities. *Exhibit A* contains maps of ineligible areas. A property must be located outside the dark line to be eligible for the GRH program.

**REFINANCING** existing Guaranteed loans or Rural Development direct loans is authorized. No other refinancing is available under this program. GRH loans may be assumed by an eligible GRH applicant, however, the transferor is not released of liability.

# Advantages of the USDA Guaranteed Loan Program

## **Why choose this program - what's unique?**

- No down payment.
- No mortgage insurance premium.
- No maximum mortgage limit; loan amount is limited only by repayment ability of applicant and the appraised value.
- Loan up to 100% of appraised value (102% on refinance loans).

## **What's the benefit for the borrower?**

- Borrower has the choice of Rural Development, FHA, or VA guaranteed loan. There is no requirement to be denied for an FHA or VA loan in order to obtain a Rural Development Guaranteed Loan.
- All loans are at a fixed rate, with a 30-year amortization.
- Use the local or state bond programs and Federal Home Loan Bank funds to take advantage of lower interest rates.
- No limitation on source of closing costs. 100% gifted closing cost or down payment assistance is permitted. Funds from CHFA or CHAC funds can be used. Soft second mortgages are allowed for closing costs even if the total debt exceeds the appraised value of the property.
- Closing costs and the one time Rural Development guarantee fee can be financed if total loan does not exceed the appraised value.

## **What's the benefit for my institution?**

- Community Reinvestment Act (CRA) credit.
- No reserves required.
- Premium pricing and service release premium may be available.
- No prior approval of appraisers or builders from Rural Development is required. However, manufactured dealer/contractors must be approved by Rural Development.
- Any lender may participate without formal Rural Development approval. A Rural Development approved lender must underwrite and submit the loan.
- Customary processing and underwriting fees are charged.
- Gain customer base. This borrower may need other lending services.
- Available secondary market. Accepted in any Ginnie Mae I or II pool. Purchased on a single loan or pool by CHFA, Fannie Mae and Freddie Mac. Many wholesale lenders are purchasing the loans.

- May use Fannie Mae, Freddie Mac, FHA or VA documents. (Check with your secondary market).
- Local Rural Development offices available for training and other assistance.
- 90% maximum guaranteed. Losses up to 35% of the original loan amount are generally covered in full. See “Servicing GRH Loans”.

## Comparison of GRH To Other Government Guaranteed Loans



As an example, on a \$100,000.00 loan, the borrower saves \$4,540 in the first 10 years by opting for a loan from Rural Development rather than a loan from FHA. Remember that it is difficult to drop Mortgage Insurance (MI). Plus, the MI premium has to be calculated into the ratios. This is NOT an issue with a loan from Rural Development, since MI is not required.

# How to Become an Approved Guaranteed Lender



## Lender Qualifications

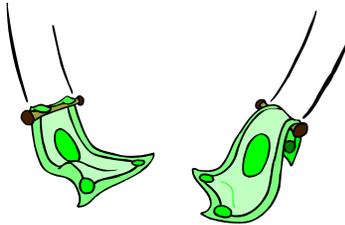
- The following Lenders are eligible to participate in the Rural Development Guaranteed Rural Housing Loan Program upon presentation of evidence of said approval and execution of RD 1980-16 and AD Form 1047.
  - ✓ Any state housing agency
  - ✓ Any Lender approved by HUD as a supervised or non-supervised mortgagee for submission of one to four family housing applications for Federal Housing Mortgage Insurance or as an issuer of Ginnie Mae mortgage backed securities.
  - ✓ Any Lender approved as a supervised or non-supervised mortgagee for the VA.
  - ✓ Any Lenders approved by Fannie Mae for participation in one to four family mortgage loans.
  - ✓ Any Lender approved by Freddie Mac for participation in one to four family mortgage loans.
  - ✓ Any FCS Institution with direct lending authority.
  - ✓ Any Lender participating in other Rural Development Rural Business and Cooperative Development Services, Rural Utilities Service, and/or Farm Service Agency Guaranteed Loan Program.
- Any Lender listed above must request a determination of eligibility in order to participate as an originating Lender in the program. Requests should be sent to the Single Family Housing Division, Rural Development, 655 Parfet Street, Rm E100, Lakewood, CO 80215.
- The Lender must provide the following information to Rural Development:
  - ✓ Evidence of approval, as appropriate, for the criteria listed in “A” above.
  - ✓ The Lender’s Tax Identification Number.
  - ✓ The name of an official of the Lender, who will serve as a contact for Rural Development regarding the Lender’s Guaranteed Loans.
  - ✓ A list of names, titles, and responsibilities of Lender’s principal officers.
  - ✓ An outline of the Lender’s internal loan criteria for issues of credit history and repayment ability and a copy of the Lender’s quality control plan for monitoring production and servicing activities.
  - ✓ An executed Form AD 1047, “Certification Regarding Debarment, Suspension, or Other Matters – Primary Covered Transactions.”

# GRH Loan Purposes, Rates, and Terms



## Loan Purposes

- Purchase existing or new homes, including: modular (UBC) housing; duplexes, townhouses; condominiums; and new manufactured (HUD Code) homes only. Townhouses and condominiums must be property eligible for Fannie Mae, Freddie Mac, FHA, or VA. The homeowners must control the HOA.
- Take out/end loan and construction-permanent. Underwrite and obtain a Rural Development Commitment prior to commencing the proposed construction. Obtain the appraisal prior to submitting the application package to Rural Development.
- Property repairs/improvements. Repairs must be completed before the final guarantee is issued. In some cases, Rural Development allows escrow for up to 120 days due to weather conditions.
- All typical buyers closing costs, including the one time Rural Development guarantee fee, can be included.
- Discount points may be included if the applicant is low income only – View SFH Guaranteed Loan Income Limits at <http://www.rurdev.usda.gov/rhs/sfh/sfh%20guaranteed%20loan%20income%20limits.htm>
- Refinancing either a Rural Development guaranteed or direct loan.



## Terms

- 100% financing is available.
- No down payment is required.
- Freddie Mac, Fannie Mae, Ginnie Mae, CHFA and portfolio lenders may loan up to the appraised value and therefore may loan for closing costs if the appraised value is sufficient.
- Loans can be refinanced up to 102%.
- Loans are for 30 years at a fixed rate.
- ARMs are **NOT** allowed.

# GRH Loan Purposes, Rates, and Terms



## Interest Rate

- Interest rates are negotiated between the borrower and the lender.
- The rate may not exceed the Fannie Mae required net yield for 90-day commitments on 30-year fixed-rate mortgages plus 60 basis points (not applicable for refinances) or the lender's published VA first mortgage rate with no discount points.
- The Fannie Mae rate can be obtained at <http://www.efanniemae.com/syndicated/documents/mbs/apeprices/public/30fraac.html> or check your rate sheets.



## Fees

- Lenders may charge the usual and customary FEES for a GRH loan as for similar transactions.
- The closing costs must be reasonable.
- Loan dockets that contain excessive costs will not be approved. There is a one-time GRH FEE equal to 1.75% of the loan amount due at closing to Rural Development.
- The refinance fee for 502 Direct and 502 Guaranteed Loans is 0.5%. Closing costs may be gifted, however, the secondary market may cap this amount. Talk to your underwriter.
- If closing costs are borrowed, the debt must be included in the ratios. Refer to RD AN 4000 for more information on Lender Charges & Fees.

Applicants may not receive any "cash back" from loan funds at closing (in excess of eligible costs they have paid). Exceptions would be appraisal fees, credit report fee, tax proration refund. There is no mortgage insurance on a Guaranteed Rural Housing Loan.

Colorado Housing Finance Authority (CHFA) programs may be used in conjunction with GRH loans. Also, any type of joint financing can be considered for use with a GRH loan.

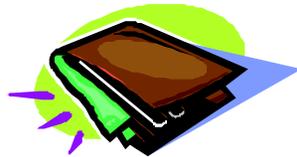
# Income Guidelines



## Applicant Eligibility

The applicant's household adjusted annual income (Eligibility Income) may not exceed the county's established MODERATE INCOME LIMIT. Exhibit B, lists the Adjusted Income Limits for each family size on a per county basis in Colorado.

Household size is determined by the number of persons who will physically occupy the dwelling on a permanent basis. A person does not need to be listed on the note to be considered a household member.



## Income Requirements

There are two types of income requirements: Eligibility Income and Repayment Income.

**ELIGIBILITY INCOME** includes not only ALL wages, but also all bonuses, overtime, child support, alimony, Social Security, etc. for all persons 18 years of age and older who will live in the home. Income received by minors will be counted as income when it is in the form of SSI or support of another type. Wages earned from minors are not considered household income. Wages from students that are 18 or older will be used in the determination of household income.

**The income of ALL adult members of the household must be verified**

**REPAYMENT INCOME** is based on the income of the person(s) signing the promissory note and may require a separate calculation from adjusted gross family income.

Refer to RD AN 3950 for determining repayment income for self-employed applicants.

## Income Guidelines (continued)



### Documentation of total household income

- Income of all adults and certain other income must be verified. See RD Instruction 1980-D, pages 39-48 for detailed information for how to calculate income and deductions available.
- Common adjustments to the gross income include child care for children 12 years and younger; \$480 deduction for each child under 18 years, 18 years or older and handicapped, or a full-time student who is not the applicant, spouse, or co-applicant; \$400 deduction for an elderly family (see definition in the 1980-D). Other deductions are described in the 1980-D, pages 43-44.
- Acceptable alternative documentation for non-self-employed applicants: (Refer to RD AN 3949)
- 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.

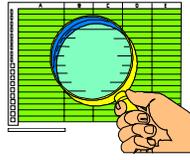
OR

- 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.
- Alternative documentation is not appropriate for self-employment, disability, child support income, etc. (Refer to RD 1980-D, pg. 47-48.)

Refer to pages 39-44 in the RD Instruction 1980-D for more information about calculating gross and adjusted income.

Provide a detailed calculation of the Eligibility and Repayment income in your application package by completing Exhibit C

# Credit Guidelines



## Credit History

The applicant's CREDIT HISTORY must indicate a reasonable ability and willingness to meet obligations as they become due. More than one late payment, or any outstanding judgment within the past 12 months is considered unacceptable as well as any bankruptcy, foreclosure or debts written-off in the past 36 months. Collection accounts should be paid in full for 6 months before consideration for the GRH program, or an explanation provided by the lender as per RD AN 3970. Two or more 30-day late rent payments in the past three years are also considered adverse.

If the family has experienced adverse credit, the applicant must submit a written explanation for the problem AND the lender must submit written documentation that the circumstances that caused the delinquency were beyond the applicant's control and those circumstances have been removed.

If the credit score of the primary wage earner exceeds 660, credit waivers are not generally required and lender may proceed with application without issuing a credit waiver. Please review AN 3948 regarding using credit scores for underwriting. The only exceptions are delinquent Federal debts or a previous Rural Housing Service loan.

## Ratios: 29/41

Applicants must demonstrate adequate repayment ability by meeting UNDERWRITING RATIOS. Income used in the ratios should be derived from those who are parties to the note. Income used in the ratios should be supported by historical evidence. Monthly housing expense to gross income may not exceed 29%. Total obligations to gross income may not exceed 41%. Child care paid is not considered a debt in the ratios. All debts with more than six payments remaining and/or shorter term debts which are significant are considered in determining ratios. Any co-signed debts as well as obligations on previous mortgages must be included as a debt in underwriting ratios unless the lender submits 12 months of cancelled checks that document that the responsible party is paying the liability.

The underwriting ratio requirements may be exceeded where an acceptable compensating factor exists or if the credit score of the primary wage earner exceeds 660 (Refer to RD AN 3936 and 3948). See page 34-35 of the RD Instruction 1980-D for more specific details regarding repayment ability for a GRH loan.

Full Residential Mortgage Credit Reports (RMCR) or Tri-Merged Reports are acceptable for the GRH program (Refer to RD AN 3967). All RMCRs, MMCRs, and NTMCRs must meet the standards set by Fannie Mae, Freddie Mac, HUD, and VA.

# Credit Guidelines



## Compensating Factors

In reviewing an applicant's eligibility, Lenders may determine that certain compensating factors exist, and that the loan appears viable. A list of compensating factors can be found in RD AN No. 3940 and 3967 and 1980-D Instruction.

- FICO score of 660 or higher. The 660 score may be used by itself or coupled with other common compensating factors, to justify the debt waiver.
- When the credit score is 720 or higher, the other compensating factors need to be listed on the ratio waiver request but do not need to be documented.
- Borrower has demonstrated a conservative attitude toward the use of credit and ability to accumulate savings.
- Credit history shows that the borrower has devoted a similar percentage of income to their housing expense to that of the proposed loan, or has accumulated savings which, when added to the applicant's housing expense, shows a capacity to make payments on the proposed loan).
- The borrower received compensation or income not reflected in effective income, but which directly affects their ability to pay the mortgage, ( i.e., food stamps and other similar public benefits).
- There is only a minimal increase in the borrower's housing expense.
- The borrower has substantial cash reserves after closing.
- The borrower has substantial non-taxable income not previously accounted for in the ratio computations.
- The borrower has potential for increased earnings, as indicated by job training or education in the borrower's profession.



## CHECK CAIVRS

Lenders must check the Credit Alert Interactive Voice Response System prior to submitting a GRH application and document the confirmation number in the comments section of the 1008. CAIVRS that identifies individuals who have delinquent Federal debts. The applicant must be current and judgment-free on any Federal debt to qualify for a GRH loan.

The HUD website has instructions on how to check CAIVRS at <http://www.hud.gov/offices/hsg/sfh/lender/sfhcaive.cfm>

See page 36-37 of the RD Instruction 1980-D for more specific details regarding credit history.

## Additional Eligibility Criteria



### Other Eligibility Requirements

It is not necessary for the applicant to be a first-time home buyer. However, there are several other eligibility criteria which applicants must meet to qualify for a GRH loan. Refer to Rural Development Instruction 1980-D, paragraph 1980.346.

- THE APPLICANT MAY NOT CURRENTLY OWN A HOME unless the other property is not structurally sound, functionally adequate, or the property is located outside the local commuting area. (More detailed information is available in RD Instruction 1980-D, pg. 38).
- The borrower must occupy the home on a permanent basis.
- Applicants must be unable to qualify for a conventional loan.
- Applicants should be allowed to retain sufficient cash on hand to cover out of pocket expenses associated with the purchase (such as moving expenses, utility deposits, window coverings, appliances, lawn maintenance equipment, etc.) and leave some reserve. A loan with mortgage insurance is not considered “conventional” by this paragraph. (However, applicants do have a choice of Rural Development, FHA, or VA).
- Be a U.S. citizen, a U.S. non-citizen national or a “qualified alien”. A U.S. non-citizen national is a person born in American Samoa or Swains Island after the date the U.S. acquired the American Samoa or Swains Island.

### Definition of Qualified Alien

- Rural Development requirements are different than HUD regarding non-permanent resident aliens. A “qualified alien” for Rural Development purposes is defined as:
  - ✓ An alien who is lawfully admitted for permanent residence under the Immigration and Nationality Act;
  - ✓ An alien who is granted asylum under section 208 of such Act;
  - ✓ A refugee who is admitted to the U.S. under section 207 of such Act;
  - ✓ An alien who is paroled into the U.S. under section 212(d)(5) of such Act for a period of at least 1 year;
  - ✓ An alien whose deportation is being withheld under section 243(h) of such Act; or
  - ✓ An alien who is granted conditional entry pursuant to section 203(a)(7) of such Act as in effect prior to April 1, 1980;
  - ✓ An alien who is a Cuban/Haitian Entrant as defined by Section 501(e) of the Refugee Education Assistance Act of 1980; or
  - ✓ An alien who has been battered or subjected to extreme cruelty under section 431 of the Immigration and Nationality Act (INA).

Refer to RD AN 3913 for more detailed information on this matter.

# Refinancing Options



## Refinancing

### **GRH funds may be used for refinancing Rural Development Guaranteed or Direct Loans ONLY.**

- Rural Development Direct Loans may have subsidy recapture due. The recapture can be deferred (Rural Development maintains a lien) or it can be included in the payoff. A 25% reduction of the recapture amount is offered for payoff rather than deferral.
- Refinance term must be 30 years at a fixed interest rate at or below the current rate.
- A 0.5% guarantee fee applies. NOTE: This is different than the fee required on purchase loans (1.75%).
- Income limits and ratios are the same as for an initial GRH Loan.
- **NO** insulation certification, flood certification, or property inspection is required.
- Applicant's **CANNOT** refinance debts other than the existing Rural Development Guaranteed or Direct Loan.
- Borrowers may be added or deleted to loan.
- Property must continue to be owner occupied.
- 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 the new escrow for taxes and insurance.
- The LTV can be up to 102% if the Rural Development guarantee fee is included in the loan.
- An appraisal is not required when refinancing, only the unpaid principal and the 0.5% guarantee fee on a guaranteed loan. However, an appraisal is always required when refinancing a direct loan (to determine subsidy recapture), or when interest and/or closing costs are to be included in the loan amount.
- The applicant cannot receive cash back, except for the nominal amount paid up front for the credit report and appraisal. The applicant may receive any escrow refund from the old loan.
- The property may be in an ineligible (non-rural) area because of area delineation changes by Rural Development.
- See RD AN 3912 for more details.

## **Maximum Loan Amount**

Rural Development has no maximum loan amount, however applicants should check with their investor to determine their specific requirements.



## Property Requirements

The property must be located in a rural area or rural community. Certain communities are ineligible due to size and/or location within a Metropolitan Statistical Area (MSA). *Exhibit A* lists the ineligible areas in Colorado.

The property must be a SINGLE FAMILY DWELLING. Townhouses and some condos are acceptable for the program, AND must have an association agreement and be approved by HUD, VA, Fannie Mae or Freddie Mac. Duplexes are eligible as long as the applicant purchases only one/half of the dwelling. New manufactured homes are eligible through Rural Development approved manufactured housing dealers/contractors only. See *Attachment E* for a current list.

A complete Uniform Residential Appraisal Report (URAR), completed by a state certified appraiser or other acceptable alternative form, is required. Please refer to AN 3934 for acceptable appraisal forms. The appraised value must at least equal the loan amount. The appraisal must contain at least three comparable properties that have been sold within the past 12 months. Comparables from similar communities may be used if adequate comparables do not exist in the subject community. The appraisal must contain photos of all comparables as well as the subject property. (An appraisal is not required if refinancing an existing GRH loan with the GRH fee only).

Homes under the GRH program are also subject to environmental policies. Please review AN 3995 for more details.

NOTE: Generally, the value of the land cannot exceed 30% of the total loan amount for both an existing and a new home. Rural Development is not interested in financing ranchettes.

### **EXISTING HOMES**

The house must be structurally sound, have adequate insulation, electrical, plumbing, heat, water/wastewater, and be free of wood destroying insects. (*Exhibit D-3* is not required for refinances. Repair costs may not be included in the loan for refinances only).

Remember:

- Generally properties located in the 100-year flood plain or properties which contain farm buildings are not eligible for a GRH loan.
- Septic systems must be pumped and inspected.
- Wells must meet State Department of Health requirements

Generally properties located in the 100-year flood plain are not eligible for a Rural Development guarantee. The site must be located on an all-weather road. A very small acreage may be eligible if the value of the site does not exceed 30% of the total value of the property and does not contain any farm service buildings or income-producing land. Refer to AN 3933 for more information.

Lenders must submit the EXISTING DWELLING CERTIFICATION, *Exhibit D-3*, with the loan application packet.

## Property Requirements (continued)

### NEW CONSTRUCTION LOANS:

The builder and lender are responsible for seeing that the following Rural Development requirements are met to ensure the proposed NEW CONSTRUCTION of single family dwellings are eligible for the Rural Development Rural Housing Guaranteed Program:

- The plans and specifications must meet appropriate building codes and Rural Development thermal guidelines for new construction (Model Energy Code).
- Engineered foundation design.
- Applicable development standards are adhered to.
- Applicable laws, ordinances, codes and regulations are complied with.
- Homes in Planned Unit Developments (PUD) should comply with AN 4011.
- Drawings, specifications, and estimates are adequate.
- Adequate water, electric, heating, waste disposal and other necessary utilities and facilities are obtained. The water and waste/water disposal systems must be approved by a state or local government agency.
- Construction and development are performed expeditiously and properly including inspections of sites and construction or development in various stages of completion to determine that work and material conform with the approved certified drawings and specifications and any other requirements.
- All homes must be landscaped. Rural Development strongly encourages water smart landscapes.

MINIMUM REQUIRED INSPECTIONS are as follows:

1. When footings and foundations are ready to be placed, prior to being poured.
  2. When shell is closed and plumbing, electrical, and mechanical work is still exposed.
  3. When all development work is complete.
- A final payment is made only after the final inspection has been made and the construction or development has been found to be complete in all respects.
  - A builder's warranty is issued when new construction, repair or rehabilitation is involved, which provides for at least one year's warranty from the date of completion or acceptance of the work.
  - No claims or liens exist against the borrower or the security. Lien waivers are to be obtained.

## Property Requirements (continued)

NEW CONSTRUCTION requires a plan certification as well as periodic inspections with a one-year warranty or a final inspection and a 10-year warranty. The following documentation must be kept in the lender's file for new construction:

### Spec Built Homes:

- ✓ Plan Certification, Form RD 1924-25
- ✓ Inspections and Warranty
  - Three inspections plus a one-year warranty OR
  - Final inspection plus a 10-year warranty

### Homes Built Under Contract:

- ✓ One contract for the entire development must be obtained.
- ✓ Plan Certification, Form RD 1924-25
- ✓ Inspections and Warranty
  - Three inspections plus a one-year warranty OR
  - Final inspection plus a 10-year warranty

Completed Forms RD 400-1 and RD 400-6 must be submitted (Lender must comply with Equal Opportunity and nondiscrimination)

The PLAN CERTIFICATION, Form RD 1924-25, must be completed either by a Licensed Architect, Professional Engineer, Authorized Building Official, Certified Code Authority or a Registered Professional Building Designer. The builder/contractor may not complete the Plan Certification.

For new construction, INSPECTIONS are to be completed by a construction inspector that the lender has determined to be qualified.

Lenders must submit the NEW CONSTRUCTION CERTIFICATION, *Exhibit D-1*, with the loan application packet.

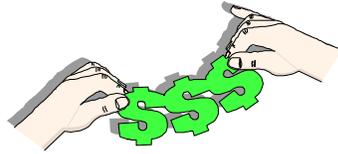
The new construction requirements of the warranty, inspections, plan certification, and Equal Opportunity (if applicable) also apply to NEW MODULAR (UBC) HOMES. An EXISTING MODULAR (UBC) HOME must meet the same requirements as an existing site built property.

## NEW MANUFACTURED HOMES

To be eligible for the GRH program, any MANUFACTURED (HUD Code, sometimes referred to as a "mobile" home) must be a new unit. The unit must be purchased and set up by an approved Rural Development manufactured dealer/contractor, placed on a permanent foundation in accordance with State Code, and built in conformance with FMHCSS. See *Exhibit E* for a listing of approved dealer/contractors in Colorado. In addition, the proposal must include the site as part of the secured property. A warranty, inspections and a plan certification are required.

Lenders must sign and submit the NEW CONSTRUCTION CERTIFICATION for Manufactured (HUD Code) Homes (*Exhibit D-2*), with the loan application package.

# How to Process a Loan



## Processing GRH Loans

- Lenders must be an APPROVED LENDER with Rural Development prior to submitting a GRH application, or must submit the loan in the name of an Approved Lender (in the case of mortgage brokers).

### Reserving Funds

- When the lender receives a potential GRH application, it should initially be reviewed to determine if the applicant's income and credit appear acceptable. If so, the lender should fax the completed 1980-86 to their local Rural Development Office to **reserve funds**.

### Lender Review Process

- The approved lender is responsible for UNDERWRITING the loan prior to submitting the package to Rural Development. The risk analysis rests substantially with the lender's underwriter. The lender uses conventional forms and a state certified appraiser chosen by the lender.
- Funded buy-downs may be utilized in certain circumstances. A compensating factor must be approved in advance for the use of a funded buy-down. (Refer to Rural Development Instruction 1980-D, page 79). Review Exhibit F for a list of items needed by Rural Development for an eligibility review of a GRH loan.

### Rural Development Review Process

- Rural Development will review and notify the lender regarding approval within 48 HOURS of receipt of a COMPLETE Application. In some cases, local Rural Development offices may pre-screen or pre-qualify an applicant. Please check with your local office. Office locations can be found on the USDA Colorado Website at <http://www.rurdev.usda.gov/co/index.htm>.
- If the loan is approved, a Conditional Commitment will be issued. The commitment is valid for 90 days. If the loan amount changes or the interest rate increases after the Conditional Commitment is issued, the lender must comply with the following for Rural Development to issue a new commitment:

## How to Process a Loan (continued)

- ✓ The interest rate may still not exceed the Fannie Mae posted rate for 90-day delivery plus six-tenths of one percent, for a 30-year, fixed-rate conventional loan.
- ✓ The lender must confirm that the applicant still meets the underwriting ratios.
- ✓ The lender will need to submit a revised REQUEST FOR GUARANTEE: 1980-21, revised Transmittal, Form 1008, and a revised application, Form 1003.

### **IMPORTANT!!!**

**DO NOT close the loan until you receive the conditional commitment.**

#### **Steps After Closing**

- After the loan is closed, the Lender will need to submit the following to Rural Development immediately after loan closing for issuance of the Loan Note Guarantee:
  - ✓ A completed Lender Certification on Form RD 1980-18 and any other documents noted on the loan, which were not submitted with the application.
  - ✓ Form RD 1980-19 – Guaranteed Loan Closing Report
  - ✓ Form RD 1980-11 - GRH Lender Record Change, if applicable
  - ✓ GRH Fee
  - ✓ Copies of closing documents

# Servicing Requirements



## Servicing GRH Loans

Rural Development provides a 90% guarantee to a lender. In other words, if a loss occurs, Rural Development will pay a lender:

- The full amount of an approved loss up to 35% of the original principal advanced; plus 85% of any additional loss; up to a maximum payment of 90% of the original principal advanced.

Lenders are required to service loans in accordance with the Lender's Agreement for Participation in Single Family Loan Programs, Form RD 1980-16.

GRH loans may not be sold to lenders who are not approved through Rural Development. GRH loans may be sold to approved lenders without prior concurrence from Rural Development. The lender should submit a Lender Record Change, Form RD 1980-11, when a loan is sold to a lender other than Fannie Mae, Freddie Mac or Ginnie Mae.

## Delinquent Loans

Lenders must service GRH loans in a reasonable and prudent manner, and provide similar servicing options as those available to other borrowers in its own portfolio of loans that are not guaranteed. DELINQUENT BORROWERS will receive the following notices at a minimum:

- ✓ The servicer will make a contact within 20 days of the payment due date.
- ✓ The servicer will attempt to arrange an interview with the borrower when the loan becomes 60 days delinquent.
- ✓ When the loan becomes 90 days delinquent, the lender will report delinquencies to credit repositories and make a decision about liquidation of the account. A plan must be submitted to Rural Development if a decision other than liquidation is made. Lenders must proceed with liquidation in an expeditious manner once a decision to liquidate has been made.
- ✓ When the loan becomes 90 days delinquent, the lender should work with the borrower to list the property for sale based on a Market Analysis prepared by a Realtor or appraiser. If a SHORT SALE is imminent, and a reasonable offer has been received, an appraisal should be obtained. A purchase price at least equal to the appraised value can be accepted.

**REAMORTIZATION** requires prior approval from Rural Development. **PROTECTIVE ADVANCES** will not be made in lieu of a subsequent loan.

## **Servicing Requirements (continued)**

Servicers will NOTIFY RURAL DEVELOPMENT when a loan becomes more than 30 days delinquent and continue to transmit a monthly report on each delinquent borrower.

Loan Servicers report via the USDA Lender Interactive Network Connection (LINC) at: <https://usdalinc.sc.egov.usda.gov>. Lenders must have an ID and password to access the system. This can be obtained by calling 1-877-636-3789 or emailing [guaranteed.loan@stl.rural.usda.gov](mailto:guaranteed.loan@stl.rural.usda.gov).

Servicers will submit a report on the status of ALL GRH borrowers on a quarterly basis using the USDA LINC System.

### **Liquidated Loans**

If the lender acquires the property, it will be treated as an **REO PROPERTY**.

The lender must immediately prepare AND SUBMIT TO THE RURAL DEVELOPMENT STATE OFFICE a liquidation plan outlining the proposed method of sale, the estimated value, a minimum sale price, itemized sales expenses and any additional information that may affect the sale. These may be faxed to the Single Family Housing Section at 720-544-2970. For specific questions, call the Lakewood State Office Single Family Housing Section at 720-544-2919.

The lender is allowed up to six months after acquisition to liquidate an REO property. (The six months begins the date the lender acquires the property at sale).

- ✓ If the REO property is sold within the six month time-frame, the loss claim will be based on the sale price, subject to the sale being at market value.
- ✓ If the property can not be sold within six months, a liquidation value appraisal is to be requested of Rural Development and the lender's loss claim is processed based on the appraised value.

### **Filing a Loss Claim**

Liquidation is defined as the date of the sale when the property is transferred to a third party.

To receive a LOSS PAYMENT from Rural Development, the lender must proceed expeditiously with liquidation and comply with all time-frames. A REPORT OF LOSS, RD 1980-20, must be filed with the Rural Development State Office within 30 days of liquidation or within 6 months of acquisition, whichever occurs first.

The lender must attach a summary sheet outlining how accrued interest was figured. Accrued interest may only be claimed to the date of settlement (item #6 on the 1980-20). If the loss payment is based on a sale, the settlement date is the date the collateral is transferred.

Please mail all Loss Claim Information to USDA Rural Development, ATTN: Housing Director, 655 Parfet Street, Room E-100, Lakewood, CO 80215. Loss claims are generally processed within 60 days of receipt.

## **Servicing Requirements (continued)**

Loss claims may be reduced or denied if the lender:

- ✓ Does not service the loan in a reasonable and prudent manner
- ✓ Is negligent in servicing the loan; does not proceed expeditiously with liquidation
- ✓ Commits fraud
- ✓ Claims unauthorized items
- ✓ Violates usury law
- ✓ Fails to obtain required security position
- ✓ Uses loan funds for unauthorized purposes or
- ✓ Delays filing the loss claim.

For more specific information on servicing requirements, refer to pages 57-65, in the RD Instruction 1980-D, and the following National Administrative Notices:

- ✓ AN 3935 - Acceptable Foreclosure Time Frames
- ✓
- ✓ AN 3939 - Occupied and Real Estate Owned Inspection, Valuation and Loss Claims
  
- ✓ AN 3941 - Acceptable Liquidation Fees and Costs
  
- ✓ AN 3945 – Loss Claim and Future Recovery Processing

The following notices have expired and will be re-issued shortly:

- ✓ AN 3861 – Lender Real Estate Owned Property Disposition Plans
  
- ✓ AN 3865 - Future Recovery of Real Estate Owned Sale Proceeds
  
- ✓ AN 3877 – Loss Mitigation Comprehensive Clarification of Policy
  
- ✓ AN 3885 – Foreclosure Sale Bids

For additional information on the Rural Housing Service Guaranteed Housing Loan Program contact your nearest Rural Development Office. Office locations can be found by visiting the Colorado web site at <http://www.rurdev.usda.gov/co/index.htm>.