

SINGLE FAMILY HOUSING GUARANTEED LENDER HANDBOOK



Colorado



Committed to the future of rural communities.

October 2006

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This Handbook provides general guidance on the Single Family Housing Guaranteed Program. Information was taken from Instruction 1980-D and current Administrative Notices. This handbook does not take the place of procedure and may change at any time. Topics addressed in National Administrative Notices (ANs) are noted by the symbol “☀”, followed by a number, and are described on the last page of this handbook. ANs may be reference online at http://www.rurdev.usda.gov/regs/an_list.html.

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/guaranteed-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.
- Loans up to 100% of appraised value or 102% if the GRH Fee is financed.
- Loans up to 100.5% on refinance loans if the GRH Fee is financed.

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. Closing costs or down payment assistance may be gifted up to 100%. Funds from CHFA or CHAC 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 can be financed if the total loan does not exceed the appraised value.
- The GRH fee can be financed if the total loan plus the guarantee fee does not exceed 102%.

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 \$4,290 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

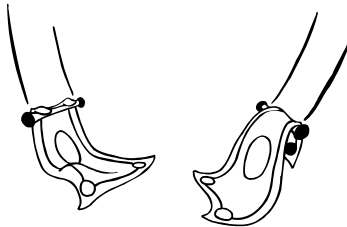
- The following Lenders are eligible to participate in the Rural Development Guaranteed Rural Housing Loan Program upon presentation of evidence of said approval and execution of RD 1980-16 (dated 6/06 or after).
 - ✓ Any state housing agency.
 - ✓ Any Lender approved by HUD as a supervised or non-supervised 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 Approved Lender in the program. Requests should be sent to the Rural Housing Director, Rural Development, 655 Parfet Street, Room 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 a contact person 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.
 - ✓ A completed and signed Form RD 1980-16, “Agreement for Participation in Single Family Housing Guaranteed Loan Programs.”

GRH Loan Purposes, Rates, and Terms



Loan Purposes

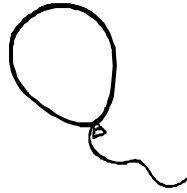
- Purchase existing or new homes, including: modular (UBC) housing; duplexes, townhouses; condominiums; and new manufactured (HUD Code) homes. Townhouses and condominiums must be determined property eligible for Fannie Mae, Freddie Mac, FHA, or VA. The homeowners must control the HOA.
- Take out/end 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.
- Refinancing either a Rural Development guaranteed or direct loan.



Terms

- 100% financing is available, or up to 102% if the entire Guarantee fee is financed.
- 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 100.5%.
- Loans are for 30 years at a fixed rate.
- Adjustable Rate Mortgages (ARMs) or Interest Only Mortgages 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.
- Check your bank's rate sheets. Lenders may use the one-day old Fannie Mae rate for Rural Development GRH loans if they do not have access to the current day's rate schedule.
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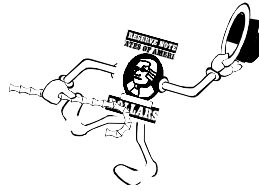
Fees

- 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 2.0% of the loan amount due at closing to Rural Development.
- The refinance fee for a 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. ⚙️
-

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 and tax proration refund. There is **no mortgage insurance** on a Guaranteed Rural Housing Loan

Colorado Housing and Finance Authority (CHFA) programs may be used in conjunction with GRH loans. Also, other 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 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 or persons signing the promissory note and may require a separate calculation from adjusted gross family income.

Refer to the current RD Administrative Notice (AN) at the end of this Handbook for determining repayment income for self-employed applicants. 2

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, a child 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: 3
- 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

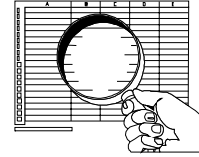
- Form RD 1910-5, "Request for Verification of Employment" (or the equivalent HUD/FHA/VA or Fannie Mae form), and the most recent paycheck stub.

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

Full Residential Mortgage Credit Reports (RMCR) or Tri-Merged Reports are acceptable for the GRH program ⁷ All RMCRs, MMCRs, and NTMCRs must meet the standards set by Fannie Mae, Freddie Mac, HUD, and VA.

The applicant's credit history must indicate a **reasonable ability and willingness** to meet obligations as they become due. Incidents of more than one late payment in the past 12 months, or an outstanding judgment within the past 12 months may be considered unacceptable. A bankruptcy, foreclosure or debt written-off in the past 36 months may also be an indicator of unacceptable credit. Two or more 30-day late rent payments in the past three years are also considered adverse. Unpaid collection accounts or debts which have been converted to collection within the past 12 months are generally considered unacceptable. However, in some cases, the lender may determine and document mitigating circumstances. ⁴

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 1) of a temporary nature, 2) beyond the applicant's control, and 3) the circumstances have been removed.

If the credit score of the primary wage earner exceeds 660, credit waivers are generally not required and the lender may proceed with application without issuing a credit waiver. ⁵

No credit waiver exceptions can be made for delinquent Federal debts or a previous Rural Housing Service loan.

In cases where the applicant's payment will be more than 100% of their current rent, or in cases where the applicant did not have housing expenses prior to purchasing a home, the lender should not allow additional risk layering without strong compensating factors. Refer to "Compensating Factors" on next page.

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. Total monthly housing expense (PITI) 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.

Credit Guidelines

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.

Underwriting ratio requirements may be exceeded only when an acceptable compensating factor exists or if the credit score of the primary wage earner exceeds 660. ^{5,6}



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 1980-D Instruction. ^{7,8}

- 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.
- A FICO score of 660 or higher may be used by itself or coupled with other common compensating factors. The lender is not required to document adverse credit unless there is a federal debt or previous agency loan.
- Borrowers with scores under 660 will require additional documentation, as listed below.
- 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 ratios.
- The borrower has potential for increased earnings, as indicated by job training or education in their profession.

CAIVRS Check

Lenders must check HUD's Credit Alert Interactive Voice Response System (CAIVRS) prior to submitting a GRH application. A CAIVRS report identifies individuals who have delinquent Federal debts. The lender must note the confirmation number received from CAIVRS on the Underwriting Summary or Request for Guarantee. The applicant must be current and judgment-free on any Federal debt to qualify for a GRH loan.

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 MUST:

- 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).
- Occupy the home on a permanent basis.
- Be unable to qualify for a conventional loan at reasonable rates and terms.
- Possess legal capacity to incur the loan obligation.
- 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).

Lenders must provide evidence confirming alien status either directly from the Citizenship and Immigration Service or by providing copies of documents so that Rural Development may verify the alien status. 9

Refinancing Options



Refinancing

GRH funds may be used for refinancing current Rural Development Guaranteed or Direct Loans ONLY. ^{10,11}

- 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 note rate.
- A 0.5% guarantee fee applies. NOTE: This is different than the fee required on purchase loans.
- Income limits and ratios are the same as for an initial GRH Loan.
- **NO** insulation certification, flood certification, or property inspection is required.
- Borrowers **CANNOT** refinance debts other than the existing Rural Development Guaranteed or Direct Loan.
- Borrowers may be added or deleted to loan at the time of refinance.
- 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 100.5% 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 a designated ineligible area as long as the current existing loan is with Rural Development.

Maximum Loan Amount

Rural Development has no maximum loan amount, however lenders should check with their investors 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 or near a Metropolitan Statistical Area (MSA). **Exhibit A** shows the ineligible areas in Colorado. Specific property locations may be check on the Property Eligibility Website at: <http://eligibility.sc.egov.usda.gov/eligibility/welcomeAction.do>

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.^{⚡12} 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), performed by a state licensed appraiser is required.^{⚡13} The appraised value must be 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, including lead based paint disclosure.^{⚡14} NOTE: Generally, the value of the land cannot exceed 30% of the total loan amount for both an existing and a new home.

EXISTING HOMES

The house must be structurally sound, have adequate insulation, electrical, plumbing, heat, water/wastewater, and be free of wood destroying insects.

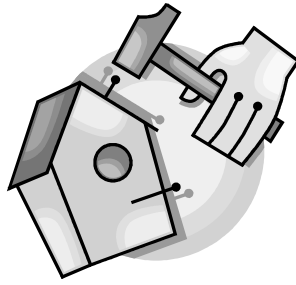
Remember:

- 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.^{⚡13}

Lenders must submit the required forms outlined in **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 (PUDs) should comply with RD Regulations. ^{§15}
- 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.



Property Requirements (continued)

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.



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.

Property Requirements (continued)

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 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 Federal Manufactured Home Construction Safety Standards (FMHCSS). In addition, the proposal must include the site as part of the secured property. A warranty, inspections and a plan certification are required. See *Exhibit E* for a listing of approved dealer/contractors in Colorado.

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



Processing a Loan

- Lenders must be an APPROVED LENDER with Rural Development prior to submitting a GRH application. Non-Approved Submitting Lenders 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 a completed 1980-86 to their local Rural Development Office to **reserve funds**. (NOTE: During a short period at the beginning of a new Fiscal Year, Reservations may not be accepted, depending on the availability of 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 licensed appraiser chosen by the lender.
- Funded buy-downs may be allowed in certain circumstances. Prior approval is required 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/contact-us.htm>.

How to Process a Loan (continued)

- 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 request a new commitment from Rural Development and provide a new Form 1008 with updated calculations.

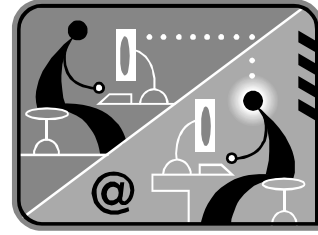
IMPORTANT!!!

DO NOT close the loan until you receive the Conditional Commitment!

If the loan is closed prior to issuing the Conditional Commitment, Rural Development has the right to not accept the application.

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 Approved Lenders. 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 by 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. ¹⁶
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.

Servicing Requirements (continued)

Rural Development's **Loss Mitigation Guide** ^{§16} provides additional guidance to lenders on early delinquency intervention, special forbearance, loan modification, pre-foreclosure sale and Deed-in-Lieu. Lenders/servicers must 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. Servicers will submit a report on the status of ALL GRH borrowers on a quarterly basis using the USDA LINC System.

Loss Mitigation action on a loan that is 90 days or more past due requires Rural Development concurrence. A servicing plan may be faxed to the Centralized Servicing Center (CSC), Guaranteed Loss Mitigation Division at 314-206-2873. For questions call 1-866-550-5887.

Liquidation of Loans

In the event a property goes to foreclosure sale, Rural Development has issued guidance on bid procedures, acceptable liquidation fees and acceptable foreclosure time frames. ^{§17,18,22}



Real Estate Owned Property

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

Within 30 days of property acquisition, the lender must prepare and submit a Property Disposition 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. ^{§19} These may be faxed to the CSC Guaranteed Division at 314-206-2873. The lender may also email the Property Disposition Plan to guaranteed.servicing@stl.rural.usda.gov. For questions, call the GRH Servicing Help Desk at 1-866-550-5887.

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 after redemption.)

- ✓ 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, and should be submitted shortly after the sale.

Servicing Requirements (continued)

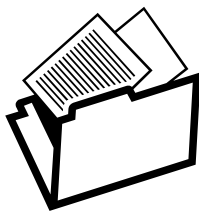
- ✓ If the property is not sold at the end of the six month marketing period, a liquidation appraisal must be requested from Rural Development and the lender's loss claim is processed based on the liquidation value. ☼²⁰

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 within 30 days of sale of the property or within 6 months of acquisition if the property has not been sold, whichever occurs first.

Accrued interest may only be claimed to the date of settlement. If the loss payment is based on a sale, the settlement date is the date the collateral is transferred. Otherwise, the date is six months from the date of acquisition.



All Loss Claims should be mailed to USDA, Rural Development, Guaranteed Loss Mitigation Claims Processing, P.O. Box 66806, St. Louis, MO 63166-6806. Loss claims are generally processed within 30 days of receipt.

Loss claims may be reduced or denied if the lender:

- ✓ Does not service the loan in a reasonable and prudent manner
- ✓ 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
- ✓ Delays filing the loss claim.

For more information on servicing requirements, refer to pages 57-65, in the RD Instruction 1980-D and specific servicing RD ANs. ☼^{21,22,23,24}

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

[☀National Rural Development☀](#)
[Administrative Notices](#)
[referenced in this Handbook](#)

- 1** RD AN 4217, Lender Charges and Fees
- 2** RD AN 4178, Determining Repayment Income for Self Employed
- 3** RD AN 4179, Acceptable Alternative Documents to Verify Employment income
- 4** RD AN 4216, Treatment of Applicant Collection Accounts
- 5** RD AN 4171, Utilizing Credit Scores for Underwriting
- 6** RD AN 4163, Debt Ratio Waivers
- 7** RD AN 4170, Applicant Credit History Verification
- 8** RD AN 4162, Approved Lender Underwriting Guidelines
- 9** RD AN 4200, Eligibility of Non-U.S. Citizens and the S.A.V.E. Program
- 10** RD AN 4134, Refinancing of SFH Guaranteed Loans
- 11** RD AN 4137, Refinancing of 502 Direct Loans
- 12** RD AN 4196, Condominium Requirements
- 13** RD AN 4145, Existing Dwelling Inspection Requirements and
Acceptable Origination Appraisal Forms
- 14** RD AN 4128, Environmental Compliance when Construction has been initiated
- 15** RD AN 4111, New Construction and Planned Unit Developments
- 16** RD AN 4165, Loss Mitigation Comprehensive Clarification of Policy
- 17** RD AN 4169, Acceptable Liquidation Fees and Costs
- 18** RD AN 4150, Foreclosure Sale Bids
- 19** RD AN 4184, REO Property Disposition Plans
- 20** RD AN 4121, Liquidation Value Appraisals
- 21** RD AN 4138, Loss Claim and Future Recovery Processing;
- 22** RD AN 4168, Acceptable Foreclosure Timeframes
- 23** RD AN 4210, REO Sold and Future Recovery of Sale Proceeds
- 24** RD AN 4122, Occupied REO Inspections, Valuations and Loss Claims