

UNDERWRITING USDA RURAL DEVELOPMENT GUARANTEED RURAL HOUSING LOAN

Revised: 9/08/2008

PROPERTY ELIGIBILITY

Housing loans made under Rural Development's loan programs must be located in designated rural areas. This would include any town or city of 20,000 population, or less. Basically the whole state of Idaho is eligible except our major cities and the areas immediately surrounding them. Below is a list that will help you in determining if the home is in an eligible area:

County	Eligible Areas	Ineligible Areas
Ada	Kuna and Star	Meridian, Eagle, Boise City
Canyon	Middleton, Parma, Wilder Greenleaf, etc.	Caldwell and Nampa
Bannock	Inkom, Downey	Pocatello, Chubbuck
Bonneville		Idaho Falls City, Ammon
Kootenai	Post Falls, Rathdrum	Coeur d'Alene City
Nez Perce	Moscow, etc.	Lewiston City
Twin Falls	Filer, Buhl, Jerome, Kimberly, Hansen, Filer, etc.	Twin Falls City

Rural Development has a property eligibility website that will verify if a specific property address is in an eligible rural area. The website is:

<http://eligibility.sc.egov.usda.gov/eligibility/welcomeAction.do>

Once you are at the website, just type in the property address to find out if the property is in an eligible area for the Rural Development program. Please note that not all addresses will be able to be mapped, however, we anticipate a very high percentage of the addresses can be mapped. Some reasons that the property may not be able to be mapped are:

- New address that is not yet in a national database
- Not a valid 911 file standardized address that can be geo-coded
- Part of the address is incorrect
- Error in address in the national database

If you receive an "unable to determine" response, please call your local RD office for a property eligibility determination.

You will notice that you must accept a disclaimer before the system will allow you to enter the property eligibility page. This is to protect Rural Development and to let the users know that Rural Development still makes the final determination as to property eligibility.

TERM

30-year amortization, fixed rate, no exceptions. For construction-permanent loans, the term begins with the date of the loan modification to the permanent terms.

INTEREST RATE

- Schedule provided by investors. Limited to the Fannie Mae 90-day yield (actual-actual) for 30 year conventional fixed rate loans [plus .6% (60 basis points)] or the lender's posted VA rate with no discount, whichever is higher. Rate may float until locked. Lenders are asked to fax a copy of the lock sheet to RD at the time the rate is locked.
- This is a maximum rate, not a minimum.

LOAN PURPOSES

- Existing or new homes, including: modular housing; manufactured (only new units, ~~see ID AN 1661 at our website at:~~

<http://www.rurdev.usda.gov/id/GUARPage/ANOrigination.htm>

If the town home or condominium has a PUD it is automatically acceptable for the guaranteed program.

- To be acceptable for the guaranteed program, condominium projects and any other non-PUD projects (such as a cooperative) served by an HOA must still be approved or accepted by HUD, VA, Fannie Mae, or Freddie Mac. See RD AN 4303, ~~"Condominium Requirements" at our website at:~~

<http://www.rurdev.usda.gov/id/GUARPage/ANOrigination.htm>

The AN contains instructions for lender self certification and warranty and explains ineligible properties.

- Take out/end loan including construction-permanent. Underwrite and obtain the RHS Commitment prior to proposed construction. RHS does not do "credit only" approvals. Obtain the appraisal prior to submitting the application package to RHS.
- Property repairs/improvements. Repairs must be completed before the final guarantee is issued.
- All typical buyers closing costs, including the one time RD guarantee fee. (Discount points for low income applicants only. See RD 1980-D, 1980.310 (d) at: http://www.rurdev.usda.gov/regs/regs_toc.html#1980

See RD income limits at :

http://www.rurdev.usda.gov/rhs/sfh/GSFH_Income_Limits/ID%20GRH.pdf

MINIMUM LOAN AMOUNT

- None with RD. Borrowers must meet repayment ratios and RD income guidelines. Check with investor in case they have limit.

ESCROW

- Mandatory for taxes and insurance.
- Escrow accounts for exterior development are to be used only when exterior development work cannot be completed because of weather and the work remaining to be done does not affect the livability of the dwelling. The following conditions must be met.
 - 1) A signed contract and bid schedule is in effect for the proposed exterior work.
 - 2) The contract must complete the work within 120 days.
 - 3) The Lender agrees to obtain a final completion report and notify RHS of completion.
 - 4) The escrow should be funded for 150% of the cost of the completion but may be higher if needed. Reference RD 1980-D, 1980.315 at:
http://www.rurdev.usda.gov/regs/regs_toc.html#1980

MAXIMUM LOAN AMOUNT

There is no maximum loan amount. The income guidelines and repayment ratios assist to determine the amount the applicant can borrow.

- The total debt can exceed the value if a loan for closing costs or down payment is made by a state or local agency and secured by a 'soft second' lien to permit assistance such as SHIPP or HOME. Grants by the state or local agencies for closing costs or down payment are acceptable. Check with your secondary marketing department for any restrictions they may impose in regard to the second liens.

RESERVATION OF FUNDS

- Upon receipt of a viable application (application form, verification of employment, credit report and purchase agreement) the originating lender/broker can set aside the allocation from Rural Development providing it appears the loan will clear the underwriting process: This assures all parties that the RD funding is available. Deliver the "Reservation of Funds" on our website at:
<http://www.rurdev.usda.gov/regs/forms/1980-21.pdf>
to the RD office serving the county where the property is located. The Reservation of Funds is good for 60 days. If loaning for the guarantee fee, remember to include the one-time guarantee fee of 2.00 percent of the final loan amount. Call your local RD office for an Excel program that calculates the guarantee fee.

GUARANTEE FEE

- Two percent (2.00%) (effective December 11, 2004) of the final loan amount. The Maximum Loan-to-Value Ratio (LTVR) for purchase loans can exceed the appraised value to include the amount of the guarantee fee. This applies only to loans for which the guarantee fee is being financed. If only a portion of the fee will be included in the loan, then the maximum loan can only exceed the

appraised value of the property by the amount of the guarantee fee being financed.

To calculate the 2 percent guarantee fee, multiply the principal loan amount by .02 and round to the nearest cent, if necessary.

EXAMPLE: \$91,500 loan x Fee .02 = \$1830.00

To calculate a purchase loan amount, which includes the fee, simply divide the original principal loan amount by .98 (1.00 less the .02 fee), and round to the nearest cent.

EXAMPLE: Original Loan Amount \$91,500 / .98 = Loan with fee \$93,367.34694, rounded to \$93,367.35. Loan with fee \$93,367.35 = Fee \$1867.35.

- The fee is submitted with a final package to RHS after the loan is closed.

INCOME LIMITS

The adjusted gross annual household income must not exceed the “mod.inc-guar.loan” limits posted for Idaho at:

http://www.rurdev.usda.gov/rhs/sfh/GSFH_Income_Limits/ID%20GRH.pdf

Arrow down to box at bottom and click on ‘Site Index’, arrow down to ‘Single Family Housing Guaranteed Loan Income Limits and click on specific state.

The “low-income” levels on the charts would only be used when discount points are financed into the loan. Discount points cannot be financed unless the applicant meets the “low-income” limits for location and family size.

An applicant must meet the “low income” category in the income limits in order to finance discount points. If this is not the case, the “moderate income” category is used.

BELOW IS AN “EASY-TO-USE” CONDENSED CHART FOR IDAHO ONLY

	1 person	2 person	3 person	4 person	5 person	6 person	7 person	8 person
All counties EXCEPT those listed below	49550	56600	63700	70750	76400	82050	87750	93400
Other Counties								
Blaine 108050	60250	68850	77450	86050	92950	99800	106700	113600

CALCULATING ANNUAL ADJUSTED INCOME:

If needed to qualify, certain adjustments are allowed as permitted in regulation RD 1980-D if the gross household income is over the stated limit.

These deductions are:

\$480 for each minor child, disabled dependent or full time student living in the household.

Documented child care expense for children age 12 or under. Child care must be paid to a third party and not a family member living in the household.

A deduction for an “elderly family.” (To qualify as an “elderly family”, the applicant or co-applicant must be 62 years of age, or any age if disabled.)

If the applicants meet the criteria for an “elderly family,” unreimbursed medical expenses greater than 3 percent of their gross income may also be deducted.

Calculation of Adjusted Gross Income for Program Eligibility Purposes:

EXAMPLE: A 4-person household in Bingham County with an annual Gross income of \$72,500, 2 dependent children and childcare expenses of \$3500.

$\$72,500 - \$960 (\$480 \times 2) - \$3500 = \$68,040$. Per the above chart, the maximum income allowed for a 4-person family in Bingham County is \$70,750.

This family meets the income limits.

A worksheet for calculating annual adjusted income is available at:
<http://eligibility.sc.egov.usda.gov/eligibility/incomeEligibilityAction.do?pageAction=state&NavKey=income@11>

Count the income of all adults who will reside in the household. For a complete description of annual income and adjustments to income, see RD Instruction 1980-D, paragraph 1980.347 and 1980.348, or visit our national website at:
http://www.rurdev.usda.gov/regs/regs_toc.html#1980

Counties are listed individually on the income chart EXCEPT those in the MSA areas (the first page of the chart). If your county is not listed individually on the income chart, determine the MSA from this list:

Metropolitan Statistical Area (MSA) Counties:

- 1) Boise City, ID - includes Ada, Boise, Canyon, and Owyhee
- 2) Gem County Idaho – includes Gem County
- 3) Idaho Falls, ID MSA includes Bonneville and Jefferson Counties
- 4) Lewiston, ID MSA includes Nez Perce County
- 5) Pocatello, ID - includes Bannock and Power Counties
- 6) Logan, UT MSA includes, Franklin County, Idaho

Loans should be marketed to moderate-income families. The condensed chart on Page 9 of this section contains only the “moderate income-guaranteed loan” limits for Idaho.

VERIFICATION OF INCOME

The following documentation is acceptable for verifying household income:

- RD Form 1910-5, “Request for Verification of Employment or 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, or
- Electronic verification or other computer-generated documents accessed and printed from an Intranet or Internet, and W-2 tax forms for the previous 2 tax years, and a telephone verification of the applicant’s current employment.

For further information see 1980-D, 1980.353 (e) (i-iv) (2), at our National website at: http://www.rurdev.usda.gov/regs/regs_toc.html#1980 and RD AN 4269 on our website at:
<http://www.rurdev.usda.gov/regs/an/an4266.pdf>

VERIFICATION OF INCOME FOR SELF-EMPLOYED APPLICANTS

Self-employed applicants must submit copies of their signed individual Federal income tax returns for the most recent two years, current documentation of the business’s income and expenses, year to date profit and loss and balance

statements. In lieu of the tax returns, the lender may obtain IRS issued transcripts of the borrower's tax returns with all of the applicable schedules.

A. Lender should require applicant to sign IRS Form 4506, "Request for Copy of 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 information does not have to be back from the IRS before closing the loan.

B. The underwriter should use one of the following methods/forms found in Forms Section of this guide.

1) Cash Flow Analysis – Fannie Mae Form 1084

2) Comparative Income Analysis – Fannie Mae Form 1088

Rural Development uses the following formula for calculating self-employment income for repayment income only.

$$\text{Net profit} + \text{Depletion} + \text{Depreciation} = \text{Repayment Income.}$$

RD regulations 1980-D, 1980.347(d)(v)

http://www.rurdev.usda.gov/regs/regs_toc.html#1980

will be followed when calculating self-employment income for program eligibility.

- a) Straight line depreciation as allowed by IRS, based on an itemized schedule showing the amount of straight line depreciation that could be claimed for Federal income tax purposes.
- b) Any withdrawal of cash or assets will be counted as income unless put back into the operation.
- c) A deduction for verified business expenses, for overnight business trips made by salaried employees, such as long-distance truck drivers, who must meet these expenses without reimbursement.

For further guidance on calculating self-employment income click on RD AN 4266 at our state website at:

<http://www.rurdev.usda.gov/regs/an/an4266.pdf>

VERIFICATION OF OTHER TYPES OF INCOME

Alimony and/or child support payments will be verified by obtaining a copy of the divorce decree or other legal document indicating the amount of the payments. When the applicant states that less than the amount awarded is received, the Lender will request documentation from the official entity through which payments are received or from another third party able to provide the verification when payment is not made through an official entity indicating the amounts and dates of payments to the applicant during the previous 12 months.

SECTION 8 HOMEOWNERSHIP VOUCHERS

Section 8 income is not included in annual income under RD Instruction 1980-D. See “Repayment Income,” Page 13 of this Underwriting Guide.

Social Security, pension, and disability income may be verified by obtaining a copy of the most recent award or benefit letter prepared and signed by the authorizing agency. This verification will be considered valid only for 1 year from the date of the award or benefit letter. Form RD 1944-4 will be used to verify disability in cases where State Review Board or Social Security records are not available

REPAYMENT INCOME – Salaried Employees

(For further information see RD-1980-D, paragraph 1980.347 and 1980.348) at our National Website at: http://www.rurdev.usda.gov/regs/regs_toc.html#1980

- This may require a separate calculation from adjusted gross family income.
- Is based on the income of the person(s) signing the promissory note.
- Income must be anticipated to last for at least 24 months.
- May be based on projected income however, most underwriters expect historical information.
- Historical income that is higher than projected income (based on current wages) is not allowed without documentation of anticipated increased earnings.
- Non-taxable income may be grossed up 20%.
- No co-signors permitted.
- Self-employed applicants must submit copies of their signed individual Federal income tax returns for the most recent two year and year-to-date profit and loss and balance statements. (See pages 11 and 12 of this section.)
- Section 8 Voucher Income. (For further guidance click on RD AN 4293 at our state website at: <http://www.rurdev.usda.gov/regs/an/an4293.pdf>
<http://www.rurdev.usda.gov/id/GUARPage/ANOrigination.htm>

CREDIT CRITERIA (underwriter can consider mitigating circumstances)

RD considers the most recent 12 months of credit. The applicant must have a credit history which indicates a reasonable ability and willingness to meet obligations as they become due. Any or all of the following are indicators of an unacceptable credit history.

- No foreclosure in past 36 months.
- No bankruptcy discharged within 36 months.
- No more than one-payment 30 days past due in last 12 months.
- No accounts converted to collections within past 12 months.
- No tax liens or delinquent government debts (including student loans).
- No judgments outstanding in past 12 months.
- No outstanding collections.
- No two or more late rent payments within 24 months.
- No debts written off or charged off within the past 36 months.

- Chapter 13 Bankruptcies will be handled on a case-by-case basis.
- See RD Instruction 1980-D; paragraph 1980.345(d) for the complete credit criteria or visit our website at:

http://www.rurdev.usda.gov/regs/regs_toc.html#1980

EXCEPTIONS TO CREDIT REQUIREMENTS

Underwriters may consider mitigating circumstances to establish the borrower's intent for good credit when:

- The circumstances were of a temporary nature, were beyond the applicant's control, and have been removed.
- The adverse action or delinquency was the result of a justifiable dispute because of defective goods or services.
- Underwriters must document their credit waiver on Fannie Mae Form 1008, "Uniform Underwriting and Transmittal Summary or a similar format.
CAUTION: See "PAYMENT SHOCK" on Page 2 as stricter underwriting may be necessary.
- Underwriters may use credit scores to streamline underwriting as indicated in the guide on the following page:

NON TRADITIONAL CREDIT

- Non-Traditional Mortgage Credit Reports may be used as a substitute for a RMCR or MMCR for borrowers without a credit history through traditional credit grantors, or to supplement RMCR's or MMCR's that do not have sufficient traditional credit references reported. A NTMCR may not be used to enhance the traditional credit history of borrowers with poor payment records.

While a NTMCR from a consumer reporting agency is preferred, a lender may develop its own nontraditional credit history for a proposed applicant. In either case, at least three (3) non-traditional credit references should be developed. The nontraditional credit histories:

- Additional layers of risk are not advised for applicants who rely on nontraditional credit references.
- Payments made to relatives for credit sources (i.e. personal loans) are not eligible non-traditional credit references.
- Nontraditional credit may not be used to offset derogatory references found in the borrower's traditional credit information, such as late payments, collection accounts and judgments.

Rent or housing payment should be given the most consideration when evaluating nontraditional credit histories. Cancelled checks or money order receipts over the past 12 months should be provided as proof of timely payment. Rental references from management companies with a payment history over the past 12 months may be used in lieu of cancelled checks.

In addition to rent or housing payment history, as 12 month payment record from the following are acceptable sources lenders may verify to prove the applicant's ability and willingness to meet debt obligations:

- Utility payment records (if utilities were not included in the rental payment) including gas, electricity, water, or telephone cell phone service, cable TV, etc.
- Insurance payments (excluding those paid through payroll deductions) including medical, automobile, life, household, or renter's insurance
- School tuition
- Payments to retail stores (i.e. department, furniture, appliance stores, specialty stores, etc.)

Acceptable verification for proof of payment includes canceled checks, money order receipts, and written verification from independent third parties (not relatives). Written verification should include creditor name, date the account was opened, balance of that account, monthly payment, and payment history reported in 0x30, 0x60, etc. format. Subjective statements should not be used to verify payment history such as "satisfactory or "acceptable".

- Only one 30 day delinquency is allowed on one nontraditional credit reference within the last 12 months.
- 60 and 90 day delinquencies, and report of disconnect notices are not acceptable.

An additional non-traditional credit reference includes documenting the applicant's ability to make steady periodic savings deposits over a 12 month period accumulating a cash reserve of at least 2 months worth of housing expenses payments.

SOLE AND SEPARATE APPLICANTS

- Lender to indicate that applicant is applying as "sole and separate."
- Credit of the non-purchasing spouse is not considered.
- Individual credit reports are needed for spouse and non-purchasing spouse. Idaho is a community property state so any debt incurred by the non-purchasing spouse after marriage has to be counted in the ratios.
- The Guaranteed program is "income qualifying" so income of non-purchase spouse needs to be verified to determine if applicant is "income eligible." The non-purchasing spouse's income will not be counted for repayment income.
- The non-purchasing spouse will not sign the promissory note, but will sign the Deed of Trust.

RATIOS

- 29% front, 41% back.**
- A low back-end ratio, by itself, does not compensate for a high front ratio.**
- Underwriters may request the waiver prior to submitting the full RHS package, instead of approving the loan subject to the RHS waiver approval.**
- There is not a maximum amount the ratios may be exceeded. Depending on the strength of the compensating factors, front ratios in the mid to high 30s and back (total debt) ratios in the mid to high 40s are not uncommon.**
- Non-taxable income may be grossed up 20%.**
- Count all debts with over 6-months remaining payments. Shorter-term debts should be counted if they are reoccurring or otherwise have an impact on repayment ability.**
- Debt ratio waivers should only be issued if there are not additional and significant layers of risk.**
- For compensating factors, including a high FICO score, see RD AN No. 4262 on our website at: <http://www.rurdev.usda.gov/id/GUARPage/ANOrigination.htm>**

The GRH loan program is not FICO driven. However, streamlined underwriting does apply if your applicants meet certain minimum credit score requirements as listed below in the Quick Reference Guide for Underwriting. All applicants (borrower and co-borrower) must meet the credit score requirements.

QUICK REFERENCE GUIDE FOR UNDERWRITING

Underwriting Topic	Who issues Approval?	Who documents compensating factors?	Minimum credit score benefits
Debt Ratio Waivers	Lender with Rural Development concurrence prior to Conditional Commitment	Lender	660 and above: Stand alone compensating factor when additional risk layers are not present.
Payment Shock	Lender	Lender	660 and above: Stand alone compensating factor for payment shock of 100% and above. If 100% or higher, or applicant has no previous rent or housing expenses, no additional risk layering is allowed without strong compensating factors.
Credit	Lender	Lender	620 and above: No documentation or comments required by underwriter except accounts involving a delinquent Federal debt or previous Agency loan. Verification of rent not required.
Credit	Lender	Lender	619 and below: 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.
Credit	Lender	Lender	580 and below: Underwriter should not approve loan if: <ul style="list-style-type: none"> • One or more account more than 30 days late within the last 12 months. • Foreclosure discharged less than 36 months. • Outstanding tax liens or delinquent government debts with no payment arrangements that are currently due. • Bankruptcy discharged less than 36 months.

Extraordinary compensating factors must be present to warrant a lender to issue an adverse credit waiver for application with FICO scores of 580 and below.

ADDITIONAL COMPENSATING FACTORS ARE:

- a) FICO credit score of 660 or higher for any applicants
- b) Minimal increase in housing expense (payment shock): Current rent is comparable to proposed PITI.
- c) Conservative attitude toward the use of credit and ability to accumulate savings
- d) Previous credit history verifies that the borrower has the ability to devote a greater portion of income to housing expense. Many low income or high cost area borrowers already pay a substantial amount of rent or housing.
- e) Employment history of 2 years or more in current position.
- f) Additional compensation or income received but not reflected in repayment income, yet this income has a direct effect on the ability to pay the mortgage, including food stamps, other similar public benefits, potential annual commissions or bonus payouts based on performance, or additional part time employment that lack a stable history.
- g) The borrower has potential for increased earnings, as indicated by job training or education in the borrower's profession.
- h) Cash reserves after closing.
- i) Home is being purchased as a result of relocation of the primary wage-earner. The secondary wage-earner has an established history of employment, expects to return to work or is currently seeking employment, and there are reasonable prospects for security employment in a similar occupation within the new area.

SELLER ASSISTANCE

- No RHS limit. Contact your investor. Seller assistance may be limited to 6%.**

2/1 BUYDOWN REQUESTS AND IDAHO HOUSING & FINANCE ASSOCIATION (IHFA) INTEREST QUALIFIER (IQ)

- Lenders are required to obtain prior RD concurrence. Request to include compensating factors as buy down or IQ is considered a risk layer. Document compensating factors and waiver request on the 1008.**
- Lenders must show that the applicant's income will increase at the end of the first and second and/or third years to offset the increased payments, NOT including normal cost of living raises.**
- Projected reduced debt to offset increased rate is justified only if it can be documented that the debt will not occur again. An example of what will NOT work: car loan is being paid off.**

CONSTRUCTION-PERMANENT LOANS

- RD can guarantee construction-permanent loans. The guarantee is not issued until the Lender obtains a copy of the final inspection and certifies to RD that the inspection is adequate. Copies of all inspections must be in the Lender's file. RD will look for the inspections when completing servicing reviews. RD may, at any time, require a Lender to furnish the Agency copies of the inspections. Click on RD AN 4313 under Origination AN's located at <http://www.rurdev.usda.gov/id/GUARPage/grh.htm>

PAYMENT SHOCK

- Payment shock signifies the increase in housing expenses experienced by an applicant. RD considers payment shock a risk layer when it is double or more than the current housing expense of the applicant.

In cases where the applicant does not have prior experience in meeting rent or housing expense obligations, payment shock cannot be measured as a percentage but it is still consider a risk layer.

When payment shock is 100% or higher, or the applicant has no previous rent or housing expenses, no additional risk layer (such as adverse credit waivers or ratio waivers) or temporary buydowns, should be allowed without strong compensating factors as those listed above.

A FICO of 660 and higher is an stand alone compensating factor for payment shock of 100 percent or above.

If the applicant has payment shock of 100% or higher, or the applicant has no history of previous rent or housing expenses, no additional risk layering is allowed without strong compensating factors.

OTHER ELIGIBILITY CRITERIA

- Does not own an adequate home.
- Unable to easily 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.
- Be a natural citizen or a non-citizen with one of the INS authorizations listed in RD AN 4302 on our website at:
<http://www.rurdev.usda.gov/id/GUARPage/ANOrigination.htm>
RD now verifies qualified alien status through SAVE (Systematic Alien Verification for Entitlements) database that is maintained by the Department of Homeland Security. For verification in advance on your applicants, please call your local office or (208) 378-5628.
- Be willing to personally occupy the dwelling.
- See RD Instruction 1980-D, paragraph 1980.346 or visit our website at:
<http://www.rurdev.usda.gov/reqs/>

APPRAISAL –

For further information click on RD AN 4260 at our state website at:
<http://www.rurdev.usda.gov/id/GUARPage/ANOrigination.htm>

Following is a list of appraisals that must be used for the guaranteed loan program as appropriate. These forms became mandatory for residential real estate appraisers on November 1, 2005.

- 1) URAR (FNMA Form 1004/FHLMC Form 70)
 - 2) Manufactured Home Appraisal Report and Addendum (FNMA Form 1004C/FHLMC and Form 70B)
 - 3) Individual Condominium Unit Appraisal Report (FNMA Form 1073/FHLMC Form 465)
 - 4) Appraisal Update and/or Completion Report (FNMA Form 1004D/FHLMC Form 442)
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- For existing properties (over one year old) an appraisal performed by an FHA roster appraiser is strongly recommended. FHA roster appraisers can be identified at: <https://entp.hud.gov/idapp/html/apprlook.cfm>
 - Conventional appraisals can be used on new or existing dwellings but the dwelling inspection guidelines for existing homes must be met. (also see Site & Building Requirements.
 - The cost approach to value is still needed for homes less than one year old, even though the appraisal form states that it is not required by Fannie Mae. Lenders will need to instruct their appraisers of this requirement.
 - A site value is still needed for both existing and newly constructed home.
 - Both an exterior and interior inspection must be made of the subject property and exterior inspections must be made on all comparable sales.
 - For a list of non-approved appraisers, click on ID AN 1709 at our state website at: <http://www.rurdev.usda.gov/id/GUARPage/ANOrigination.htm>
 - For guidance on appraisals on Tribal Land click on RD AN 4263 on our state website at: <http://www.rurdev.usda.gov/id/GUARPage/ANOrigination.htm>
 - The date of the appraisal must be within 6 months of the date the request for a Conditional Commitment is submitted to RD.
 - The appraisal must have three comparable sales which are not more than 12 months old.
 - The appraisal must be supported by photos which clearly provide front, rear and street scene views of the subject property and front view of each comparable.
 - Must follow appraisal documentation requirements for manufactured homes.

SITE AND BUILDING REQUIREMENTS

- Must be in rural area. Use property eligibility website at:
<http://eligibility.sc.egov.usda.gov/eligibility/welcomeAction.do>
- Non-rural areas:
Ada County is considered non-rural except Kuna and Star.
Caldwell, Nampa
Pocatello and Chubbuck
Idaho Falls City and Ammon
Coeur d'Alene, Hayden
Lewiston
Twin Falls
- If questions on eligible/ineligible areas, ask the local office for assistance.
A directory of RHS offices is located in the RD Directory section of this guide.
- See the national regulation RD-1980-D, paragraphs 1980.312-1980.314 at:
<http://www.rurdev.usda.gov/regqs/>
- Maps of eligible/ineligible rural areas are located in the Maps Section of this guide, along with RD's mapping website.
See "APPRAISAL" and "INSPECTIONS" for further guidance.
- Consult with the local RD prior to underwriting a property with an existing or proposed non-standard septic or well.
- Consult with the local RD prior to underwriting a dwelling located on a non-paved road.

EXISTING HOME REQUIREMENTS AND INSPECTIONS

(Homes more than 12 months old or previously occupied)

- The property must meet HUD Handbooks 4150.2 and 4905.1 for existing construction, and RD's water and water/waste disposal system requirements. For further information, see RD Instruction 1980.341(b) (1)(i) and (c), and 1980.313(c). at: http://www.rurdev.usda.gov/regqs/regqs_toc.html#1980

Appraisal forms, (Fannie Mae Form 1004 and Freddie Mac Form 70, both dated March 2005) completed by a FHA roster appraiser, will be acceptable certification that the home meets the required HUD Handbooks providing that the HUD roster appraiser certifies that the requirements of HUD Handbooks 4905.1 and 4150.2 have been met. Page 40 of the forms section of this guide provides an optional certification form.

As an alternative to the appraisal completed by an FHA roster appraiser, the Lender can obtain a conventional appraisal (the appraiser must use the new appraisal forms) and home inspection.

Lenders may determine that a non-FHA roster appraiser is qualified to perform the home inspection; (in lieu of a licensed home inspector) as long as the lender is assured that the non-FHA roster appraiser is thoroughly familiar with HUD Handbooks 4905.1 and 4150.2. Only individuals familiar with these handbooks should certify that a property meets all the HUD Handbook standards. Certification by anyone else would constitute misrepresentation. Doing so would constitute a misrepresentation. Lenders are responsible for the acts of their

agents, including appraisers. In any case where the appraiser certifies that the requirements of HUD Handbooks 4905.1 and 4150.2 have been met, they may do so on page three of the appraisal form, in the “comment” section, or the optional form, “Appraiser’s Certification” found in “Forms & Checklists” section of this guide. This is a fillable certification.

The home inspection report must include the following, as applicable:

- An inspection performed by the local health authority or state certified laboratory in order to satisfy the water system requirements on individual water systems.
- The septic system must be free of observable evidence of system failure. The separation distances between a well and septic tank, the drain field and the property line should comply with HUD guidelines or state well codes. If the lender, FHA roster appraiser or inspector is in doubt about the operation of septic system, the local health authority or a septic system professional will determine the viability of the system.
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 must be completed prior to requesting the Loan Note Guarantee, or the escrow requirements (listed on Page 3 of this section of the guide) have been met.

Any inspections and/or repairs called for by the appraiser or home inspector must be ordered/completed before RD can issue a Loan Note Guarantee. However, the loan can be approved and a RD Conditional Commitment for Guarantee can be issued subject to the completion of the repairs. The Lender, applicant, and seller must work out the plan for completing the repairs. RD does not make the repair decisions. Any amount to be paid from loan funds must be included in the loan request prior to underwriting and submission of a file to RD.

RD is not looking for cosmetic problems. The appraiser should understand that only the major components of the home should be checked. If a home inspector is used in lieu of a FHA appraisal, the Lender is responsible for informing the home inspector that RD requires only those repairs necessary to ensure that the dwelling is structurally sound, functionally adequate and in good repair.

Conditions that do not ordinarily require repair include any surface treatment, beautification or adornment not required for the preservation of the property.

For further information see APPRAISAL on Pages 13 and 14 of this section of the guide. Also click on RD AN 4260 on our state website at:

<http://www.rurdev.usda.gov/id/GUARPage/ANOrigination.htm>

NEW CONSTRUCTION REQUIREMENTS AND INSPECTIONS See RD

AN 4313 at: <http://www.rurdev.usda.gov/id/GUARPage/ANOrigination.htm>

A new dwelling financed with a guaranteed loan must have been built in accordance with building plans and specifications that contain approved building code certifications by one of the following eligible certifiers:

- 1) Licensed architects,**
- 2) Professional engineers**
- 3) Plan reviewers certified by a national model code organization,**
- 4) Local building officials authorized to review and approve building plans and specifications, or**
- 5) National codes organizations**

Acceptable evidence of the above includes:

- 1) Copy of the certification from a qualified individual or organization Stating that the reviewed documents comply with applicable development standards. Form RD 1924-25, "Plan Certification" <http://www.rurdev.usda.gov/regsf/forms/1924-25.pdf> is an acceptable format, if the Lender desires to use it. This form is found in the Forms and Checklist section of this guide, or on our website at: <http://www.rurdev.usda.gov/regsf/forms/1924-25.pdf>**
- 2) Certificate of Occupancy issued by local jurisdiction, or**
- 3) Building Permit (or equivalent) issued by local jurisdiction.**

The Lender's file must contain copies of the documents as described below:

- 1) Certificate of Occupancy issued by a local jurisdiction that performs at least 3 construction phase inspections, that include as a minimum those outlined in #2, listed below, and a 1-year builder warranty plan acceptable to Rural Development or**
- 2) Three construction inspections performed when:**
 - * Footings and foundation are ready to be poured and prior to back-filling.**
 - * Shell is complete, but plumbing, electrical and mechanical work is still exposed.**
 - * Final inspection of completed work prior to occupancy.**
 - * A 1-year builder warranty plan acceptable to Rural Development****OR**
- 3) A final inspection and a 10-year insured builder warranty plan acceptable to Rural Development as listed below:**

- 1) Home Buyers Warranty Corporation (HBW or 2-10)
2675 S. Abilene Street
Aurora, CO 80014**
- 2) Residential Warranty Corporation (RWC)
5300 Derry Street
Harrisburg, PA 17111**
- 3) Manufactured Housing Warranty Corporation
5300 Derry Street
Harrisburg, PA 17111**

The Agency will not require the lender to routinely submit documentation maintained in the lender's file regarding new construction that is not required to be submitted, however; the Agency has the option to request this information in appropriate situations.

- 4) Approval of water/water/waste disposal systems if private well and/or septic. Lender must obtain certification that systems have been approved by State or local authority. (For further information reference 1980.341c on our National website at: http://www.rurdev.usda.gov/regs/regs_toc.html#1980)

FLOOD ZONES

- RD must do an environmental review on each property. This is accomplished from a review of the materials submitted in the loan package.
- First floor elevation of both existing and new construction must be above 100-year flood base elevation, no exceptions.
- New construction will not be permitted in a 100-year Zone A unless there are no alternative sites available. Consult with the local RHS office PRIOR to processing a loan on a property located or proposed to be located in a FEMA designated flood zone. More information about FEMA can be found at: <http://www.fema.gov/mit/>
- Flood insurance is required anytime the foundation of the improvements on existing property is located in a special flood hazard area, regardless of having the first floor above the 100 year level.
- Septic tanks and drain fields are not allowed in a flood zone.
- The appraisal should appropriately reflect the effect of the flood zone.

LIMITATIONS: (The principal purpose of the loan must be to buy or build a dwelling.)

- No co-signors permitted.
- Final loan amount cannot exceed the appraised value.
- No in-ground swimming pool.
- No refinancing of debts owed the lender, (other than construction/development financing in conjunction with the proposed loan.
- No existing manufactured homes. Existing modular homes are acceptable.
- No flat roofed dwellings (cannot meet insulation requirements). Flat roofs over small areas of non-living areas, such as a porch, are acceptable if they pass the FHA appraiser's inspection.
- No duplexes that are not considered townhomes or condominiums and part of a Fannie Mae or FHA complex having a homeowners association controlled by the members.
- The site cost should not exceed 30% of the total package cost. Consult with RD before proceeding with a higher ratio of site cost.
- No non-essential buildings.
- No purchases or improvements of income-producing land, or building to be used primarily for income-producing purposes.
- Cannot purchase or build buildings which are largely or in part specifically designed to accommodate a business or income-producing enterprise.

- Private roads must have a legally enforceable maintenance agreement meeting Fannie Mae requirements. (For further information see Instruction 1980-D, 1980.311(1) (1)-(7) and (b), 1980.312, 1980.313 at our National website at: http://www.rurdev.usda.gov/regs/regs_toc.html#1980)

REASONABLE COSTS AND FEES

- Lenders should be able to document that the charges or fees assessed against borrowers whose loans are guaranteed under the Guaranteed Rural Housing Loan Program do not exceed charges or fees routinely made by the lender for similar transactions such as FHA or VA. Other high loan-to-value home mortgage products can also be used for comparison. This documentation is not routinely requested as part of the loan application process. The RD guarantee fee should not be included when making the comparison. For further information see RD AN 4307 on our website at:
<http://www.rurdev.usda.gov/id/GUARPage/ANOrigination.htm>
- Closing costs included in the loan must be broken out in Item 14 of RD Form 1980-21, "Request for Guarantee." The costs should match the amounts for the same costs listed on the Good Faith Estimate.

MANUFACTURED HOMES

For further information click on ID AN 1645 and RD AN 4322 at:
<http://www.rurdev.usda.gov/id/GUARPage/ANOrigination.htm>

- Existing manufactured homes are not permitted, unless it is already financed with a Section 502 RH direct or guaranteed loan.
- Determine whether the unit is a "manufactured" or a "modular" home. There are no restrictions on a modular home, even though they are built off-site. Modular homes must meet all the same requirements as "stick built" homes.
- New manufactured homes must be purchased from an Agency approved "dealer-contractor". One of the requirements is that the dealer-contractor holds both a dealer's license and a residential contractor license.
<http://www.rurdev.usda.gov/id/GUARPage/an1710.pdf>
Interested dealers should contact the local RD office to obtain applications and requirements to become approved dealer/contractors.
- The set up requirements are different than those of FHA/HUD. The manufactured home must be financed as real estate along with the property and be permanently installed on the site. This entails the removal of all running gear and towing equipment and the installation and anchoring of the home to a permanent foundation system as approved by the Standard Building Code.
- Plans must be submitted for review for each individual application. The complete set up requirements can be ordered from the local RD office.
- Lender to provide one of the following appraisal forms on all manufactured home applications:
 - 1) Manufactured Home Appraisal (Fannie Mae Form 1004C)
 - 2) Uniform Residential Appraisal Report Manufactured Home Addendum (Freddie Mac Form 70B)

MODULAR HOMES

- Modular homes are designed and constructed to meet all requirements of the state adopted building codes, the same as site-built construction (Not the same as manufactured homes, previously known as mobile homes, which meet a national safety and construction standard). Modular homes are processed the same as stick-built homes.

RD PROCESSING TIMEFRAME

RD will typically issue a Conditional Commitment within 48 hours of receipt of the application. The 24 hour time frame will be contingent on the quality of the packages. While RD is not doing an underwriting process, it still must check for certain eligibility criteria, do an environmental review, and review the appraisal. Depending on the availability of staff and the quality of your package, most lenders receive same day service.

GETTING STARTED

- Educate your loan officers, processors, underwriters, and closing department. The Idaho RHS has 10 local offices located throughout the state. See the directory in the RD Directory section of this guide. Request training from your nearest RD office, or you can call the State Office contact, Pamela Cook, at (208) 378-5628, or pamela.cook@id.usda.gov
- Thoroughly review this material, the RD-Instruction 1980-D, and the referenced Administrative Notices.
- Review the GRH Origination Package Checklist at:
 - Review the “Processing Guide” on Page 21 of this guide.
- Become familiar with the forms.

ACCURACY OF THE LOAN REQUEST

- It is very difficult and in some cases impossible for RD to change the loan amounts after the RD Commitment has been issued.
- Review the appraisal prior to completing the initial loan package to RD. Remember, the loan can be an amount up to the appraised value.
- Break out the loan purposes on the RD Form 1980-21, “Request for Single Family Housing Loan Guarantee.” This will help remind you of any closing costs, such as the guarantee fee that you intend to include in the loan.
- Changing the RD Commitment would entail canceling the first package and essentially starting from scratch. The Lender would have to supply revised or updated forms such as the Request for Guarantee (Form RD 1980-21), the Forms 1003, 1008 and certification that the applicant is still income eligible.

REQUESTING CHANGES IN THE RHS COMMITMENT AMOUNT AFTER THE LOAN IS CLOSED

It is imperative that your closing department ensures the loan amount does not exceed the amount shown on the RHS Conditional Commitment for Guarantee.

RD will not be able to adjust the amount of Commitment. The Lender would have to adjust the principal on the loan in order to obtain the Guarantee from RHS.

RD OFFICE DIRECTORY

- You can locate any of our offices by going to the [website](#).
- RD local staff is available to answer your questions and provide training for your staff.

CLOSING/SHIPPING

The following link will provide a Loan Closing Package [Checklist](#) for lenders. The checklist outlines the items to be included in the shipping package.

The original Conditional Commitment, RD Form 1980-18, must be returned to Rural Development, with the original signature by the Lender on the Lender Certification for Guaranteed Loan. (Page 2 of Form 1980-18) The Lender is responsible for determining that all conditions are met and all items on the certification are in order before signing the certification. Rural Development is not obligated to issue the Loan Note Guarantee, or can revoke the guarantee if the conditions have not been met. The certification the lender is required to sign includes the following:

- 1) No major changes have occurred since the issuance of the Conditional Commitment for Guarantee that effect the subject loan request, except any that have been approved by the Agency in writing.
- 2) All planned property acquisition has been completed and all development has been completed.
- 3) The required insurance coverage is in effect.
- 4) The Truth-in-Lending requirements have been met.
- 5) All equal employment opportunity and nondiscrimination requirements have been met at the appropriate time.
- 6) The loan has been properly closed and the required security instruments, including any required recapture instruments, have been obtained.
- 7) The borrower(s) have marketable title to the collateral now owned by the borrower subject to the instrument securing the loan to be guaranteed and any other exceptions approved in writing by the Agency.
- 8) Lien priorities are consistent with the requirements of the Conditional Commitment for Guarantee.
- 9) The loan proceeds have been disbursed for authorized purposes and in an amount consistent with the Conditional Commitment for Guarantee.
- 10) There has been no adverse change in the borrower's financial condition or any other adverse change in the borrower's situation since the Conditional Commitment for Guarantee was issued by the Agency.
- 11) All other requirements listed in the Conditional Commitment for Guarantee have been met.

PROCESSING GUIDE

- Step 1: Fax the Reservation of Funds to the local RD office. See “Reserving Funds” in the RD Underwriting Guide.**
- Step 2: RD will return the confirmation of the reserved amount. The funds are set aside for 60 days to allow lender time to process and underwrite the loan.**
- Step 3: Lender compiles the loan origination package.**
- Step 4: Lender sends the package to underwriting. Once the loan has been underwritten, a copy package is made by the underwriter and sent to Rural Development for approval. If the loan is originated by a broker, the package must go to the approved lender for underwriting.**
- Step 5: RD will review the package and issue a Conditional Commitment for Guarantee, with any conditions, directly back to the underwriter. The Conditional Commitment is good for 90 days and can be extended up to 6-months when documentation is provided by the lender stating why additional time is needed. Typically a copy is faxed to the originator. RD promises a 24 hour turn-around time.**
- Step 6: The underwriting/funding lender will inform the originating office and closing department of the loan conditions set by both the underwriter and RD.**
- Step 7: The closing lender proceeds to close the loan if all underwriter and RD conditions have been met.**
- Step 8: The underwriting/closing lender submits a request to RHS for the guarantee. The RD loan-closing checklist provides a list of items necessary to obtain the guarantee.**
- Step 9: RD issues the Guarantee to the approved underwriting/closing lender. The guarantee must be attached to the original promissory note as proof of guarantee.**

GRH REFINACING OPTIONS

We can now refinance EXISTING GUARANTEED LOANS and we can refinance RURAL DEVELOPMENT DIRECT LOANS with a new guaranteed loan as follows:

- Term is 30 years
- Fixed rate at or lower than existing rate.
- Property must be owned and occupied by the borrower.
- A .5% guarantee fee applies. Loans may only exceed 100% LTV by the amount of the guarantee fee financed.
- NO refinancing of any debt other than the debt securing the current RHS direct or guaranteed loan.
- Income limits and repayment ratios same as regular guaranteed loan.
- NO thermal certification.
- NO flood certification.
- NO property inspection.
- No cash out (see the Administrative Notices referenced below. Page numbers provided.)
- Can add/delete borrowers
- May be located in non-rural areas.
- Maximum loan is the balance of the loan being refinanced, plus the .5% guarantee fee, and reasonable and customary closing costs, including funds necessary to establish a new escrow account.
- Loan to value (LTV) may be up to 100.5% when the .5% guarantee fee is financed.
- Tri-Bureau Merged credit reports are acceptable.
- Use the standard processing forms except as noted here and in the Administrative Notices referenced below.
- Be aware that DIRECT loans may have subsidy recapture due. See RHS for payoff information.
- Complete appraisal is only needed in cases where any accrued interest, closing costs and/or fees (other than the .5% guarantee fee) will be financed into the loan when refinancing an existing guaranteed loan. If refinancing an existing 502 Direct loan that is subject to recapture, a complete appraisal will be needed to determine the amount of recapture.
- Cannot refinance a 502 Direct loan that also has a leveraged loan with it.

For further information on refinancing guidelines click on RD AN No. 4335 <http://www.rurdev.usda.gov/regs/an/an4335.pdf> (for refinancing of a guaranteed loan), and RD AN No. 4236 <http://www.rurdev.usda.gov/regs/an/an4336.pdf> (for refinancing an existing RD Direction loan).at our state website at: <http://www.rurdev.usda.gov/id/GUARPage/ANOrigination.htm>

FORMS

Some forms are linked in this guide. All other forms are available on our website at: <http://www.rurdev.usda.gov/regs/> or on our state website at:

REGULATIONS ON THE WEB

The national regulation for the guaranteed housing program is RD Instruction 1980-D. The income limits are an attachment to that regulation. The 1980-D is particularly useful for answering questions regarding income and the adjustments to income. Other regulations that cover parts of the program are RD-Instruction 1924-A (Construction), RD-1940-G (Environmental), RD Instruction 426-2 (Flood insurance, Construction in Flood Zones). National regulations can be downloaded from the Website: <http://rdinit.usda.gov/regs>

HOME PAGES

For Idaho Rural Development's website go to: <http://www.rurdev.usda.gov/id/>

RD's National home page is located at: <http://www.rurdev.usda.gov>. Look for the housing programs. At the bottom of the home page you can click on the site index. From there you can click on any state and go to that state's website. It is very useful for finding contacts in other states.

Each state home page can be accessed by using the national home page, and then add a slash (/) and the two letter abbreviation of the state. For example, the Idaho RHS home page is: www.rurdev.usda.gov/id

OTHER USEFUL SITES

Rural Development Home Page: <http://www.rurdev.usda.gov/>

Fannie Mae: www.fanniemae.com/

Freddie Mac: www.freddiemac.com/

FHA/HUD: www.hud.gov/

VA: <http://www.va.gov/>

FHA Appraisers list: <https://entp.hud.gov/idapp/html/apprlook.cfm>

Fannie Mae web link for 90 day actual/actual yields:

<http://www.efanniemae.com/sf/refmaterials/hrny/index.jsp>