Committed to the Future of Rural Communities

RURAL DEVELOPMENT

Guaranteed Housing Loan Program

Illinois Edition

Rural Development is an Equal Opportunity Lender, Provider, and Employer. Complaints of discrimination should be sent to: USDA, Director of Office of Civil Rights, Washington, D.C. 20250-9410

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www.rurdev.usda.gov/il/grh.htm

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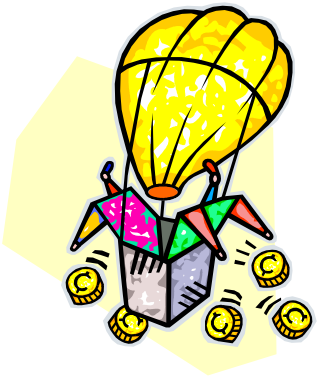
WHY LENDERS USE GRH

- **NO DOWNPAYMENT**
- **NO MONTHLY MORTGAGE INSURANCE**
- **NO CASH RESERVES ARE REQUIRED**
- **NO MINIMUM CREDIT SCORE REQUIRED/EXPANDED QUALIFYING RATIOS**
- **NO ASSET REQUIREMENTS OR LIMITATIONS**
- **NOT RESTRICTED TO FIRST TIME BUYERS**
- **NO PURCHASE PRICE LIMITS**
- **LOAN UP TO 100% OF APPRAISED VALUE, 2% Guaranteed Fee may be added to loan amount regardless of appraised value. (100.5% ON REFINANCES OF RURAL DEVELOPMENT LOANS)**
- **NO LIMITATION ON SOURCE OF CLOSING COSTS: 100% Gifted closing cost or down payment assistance is allowed. Funds from AmeriDream, Partners In Charity, or similar housing assistance from community based organizations can be used. Soft second mortgages are allowed for closing costs even if the total debt exceeds the appraised value of the property**
- **REPAIRS, AND CLOSING COSTS CAN BE FINANCED UP TO 100% OF THE APPRAISED VALUE, PLUS THE ONE TIME GRH FEE OF 2% MAY BE ADDED REGARDLESS OF APPRAISED VALUE**
- **NO LIMIT ON SELLER CONCESSIONS TO PAY FOR CLOSING COSTS AND REPAIRS**
- **ATTRACTIVE AND COMPETITIVE 30 YR. FIXED INTEREST RATES**
- **PREMIUM PRICING AND SERVICE RELEASE PREMIUM AVAILABLE**



- **NO Rural Development prior approval of appraisers or builders**
- **Any lender may participate with formal Rural Development Approval**
- **Prompt review of Guarantee Files: Maximum 48 Turnaround Time**
- **Lenders may charge normal and customary fees for their services**
- **Lenders may use their standard forms (Only 2 or 3 RD forms are needed for a typical file)**
- **EXPAND YOUR MORTGAGE CUSTOMER BASE!**
- **GRH Loans are accepted in any Ginnie Mae I or II pool. They can be sold as a single loan or as part of a pool to Fannie Mae and Freddie Mac. Nationally, approximately 300 approved lenders are eligible to purchase GRH loans**
- **Local Rural Development offices are available for training and outreach assistance**
- **RD's Guarantee provides better loss protection than Private Mortgage Insurance, with LESS COST TO THE CUSTOMER!**

Marketing Strategies

- **The ADJUSTED Household Income Limits for most Illinois counties range from $46,300 for a 1 person household to $105,200 for an 8 person household. THE INCOME LIMITS ARE HIGHER AND LOWER DEPENDING UPON WHICH COUNTY YOU ARE INTERESTED. Market to the higher end of the income range for larger loans and easier qualification. The Maximum Loan Amount is limited only by the appraised value, and reasonable repayment ability.**

- **Last year the average GRH loan amount in Illinois was approximately $70,000. Market the Guarantee Program to Real Estate Professionals who have listings in this price range, as well as higher end listings—THERE IS NO MAXIMUM PURCHASE PRICE!**

- **Use websites such as www.realtor.com or www.cifsbo.com to identify properties that could be financed with the GRH program. Market YOUR services directly to the listing agent or seller.**

- **Encourage Real Estate Professionals to use the Rural Development Inspection Report for Existing Homes (Located in the Exhibits Section) as a tool to pre-qualify their listings. Once any repair issues are identified, the property can be marketed accordingly. This approach will avoid last minute property repair or suitability issues that could delay your closing.**

- **Schedule meetings with your Real Estate Partners to present a POWER PRESENTATION! Topics include: Credit Scoring & Clean –up; Database Management; Time Management; or DISC Personality Styles. These presentations can be made by a representative of RD's Local or State Office. Once you begin adding value to your Realtor and Referral Partners businesses, YOUR business will grow!**

Increase your commissions and sales with the Guarantee Program!

Rural Development Guaranteed Advantages

1. **No Downpayment**

2. **No Monthly Private Mortgage Insurance**

3. **Closing Costs may be financed (Maximum Loan Amount is 100% of Appraised Value PLUS the 2% GRH Fee)**

4. **Higher Qualifying Ratios (29/41% with Flexibility given for compensating factors)**

5. **30 Year Fixed Rate**

Let's Compare Financing Options.....

Purchase Price: $120,000 $200 taxes/month $33 ins./month MI as required
6.5% Interest Rate (RD PITI based on $122,400 loan amount to include 2% Guarantee Fee)

	RD	FHA	97%	95%	100%
Est. Monthly PITI	$1,006	$1,030	$1,061	$1,027	$1,069
Est. Down Payment	$0	$3,420	$3,600	$6,000	$0
Include MI?	NO	YES	YES (35% Coverage)	YES	YES

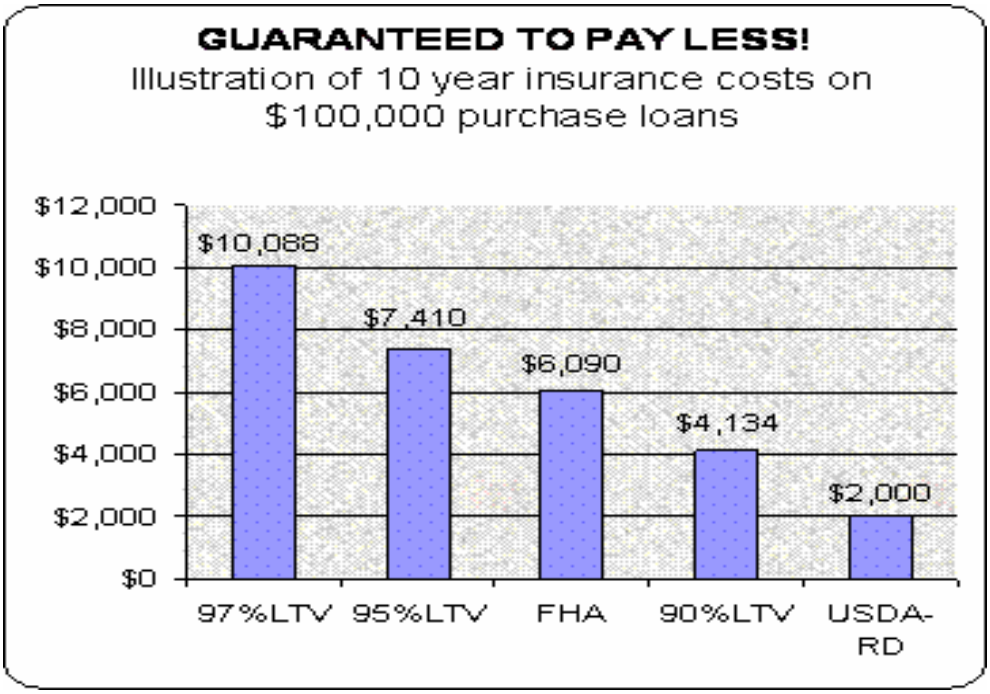
What about those 80/20 Loans? How do they compare to RD?
80% Loan (usually NOT 30yr fixed but 5 Yr. ARM): **$96,000@ 5.5% for 360 months= $545**
20% Loan (always at a higher interest rate): **$24,000@10% for 240 months= $232**
Include Taxes and Insurance (+ $233 per month)= TOTAL PAYMENT= $1,010
Please note that BOTH loans usually include FULL CLOSING COSTS, and the 80/20 does not allow these costs to be rolled into the loan.

What about 100% NO MI Loans? You usually take a higher interest rate, but NO MI? How do they compare to RD?
100% Loan: $120,000@7.5% for 360 months= $839
Include Taxes and Insurance ($233 per month)= TOTAL PAYMENT= $1,072

Rural Development is the clear WINNER!!

More GOOD NEWS!

How does the 2% Guaranteed Fee Rolled into my loan benefit me?



Borrowers may keep their nest eggs, savings, and ER funds for debt payoff, wealth building, and other financial needs.

WOW! What a savings the Guarantee Fee Offers over PMI!

On a $100,000 Purchase, the borrower saves $4,340 in the first 10 years by opting for the GRH loan rather than the FHA loan. The borrower can now also enjoy a competitive interest rate, no monthly MI payments, and they did not have to drain their savings to get into the home! Remember that it is difficult to drop MI

insurance. Plus the MI premium has to calculate into the ratios. This is NOT an issue with the GRH loan since MI is not required.

Approved GRH Lenders

Any lender licensed in IL may originate the loans and reserve funds. However, GRH loan packages must be submitted to Rural Development by an approved underwriting lender.

Underwriting lenders must be approved by IL Rural Development or by our National Office in Washington, D.C. See the Lender Approval Checklist for more info.

Eligible Rural Areas

- **Property must be in an eligible rural area or community. Generally, these are communities of fewer than 10,000 persons except that certain communities between 10,000 and 25,000 population are considered rural based on their distance from urban areas.**

- **LOG ON to the Illinois Guarantee Website http://rurdev.usda.gov/il/grh/htm to view the county maps showing the areas eligible for GRH financing in Illinois.**

Compliance Income Verification

Adjusted household (compliance) income limits for all states are posted at: http://www.rurdev.usda.gov/rhs/sfh/sfh%20guaranteed%20loan%20income%20limits.htm Just click on the state in the list on the site.

- **Income of all adults that will be residing in the household and certain other income must be verified. See RD Instruction 1980-D, pages 39-48 for detailed information on what income to count and the deductions available. RD Instruction 1980-D is available on the GRH website.**

- **Common adjustments to the gross income include: verified child care for children 12 and younger; $480 annual deduction for each child under age 18, age 18 or older and handicapped, or full-time student; who are not the applicant, spouse, or co-applicant; $400 annual deduction for an elderly family (see definition in RD Inst. 1980-D, page 4). Other deductions are described in RD Inst. 1980-D, pages 43-44. Check out the Adjusted Annual Income Calculation worksheet in the GRH Forms section.**

- **Acceptable alternative documentation for non-self-employed applicants:**

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

OR

2. **Paycheck stubs or payroll earnings statements covering the most recent 30-day period, <u>and</u> W-2 tax forms for the previous 2 tax years, <u>and</u> a telephone verification of the applicants current employment. View a sample Telephone Confirmation for Alt. Doc in the GRH Forms section.**

3. **Refer to the <u>Administrative Notice (AN) 3949</u> for more information on alternative documentation.**

Look at a good question/answer guide on Alt. Doc. This is available in the GRH Forms section.

Alternative documentation is not appropriate for individuals that change employers frequently, self-employed individuals, occupations unreimibursed employment related expenses, disability income, child support income, etc.

Supply portions of divorce decree pertaining to property settlements, child support, and alimony.

Pending pay increases that are scheduled to occur within 90 days based on the VOE must be considered for compliance purposes.

A 12 month history of child support income must be verified through the State of Illinois, or the Circuit Clerk's Office. A statement of child support will also be acceptable.

Supply copies of the most recent award letter to verify income from Social Security, SSI, SSI Disability, pension, workman's compensation, or other types of unearned income.

Unemployment compensation (UC) received as a result of seasonal types of employment can be verified by providing a copy of the applicant's income tax returns for the past 2 years.

Qualifying (Repayment) Income

- **This may require a separate calculation from the adjusted gross annual income (compliance income) depending on the applicant's employment history and the types of income involved.**

- **The qualifying income is based on income that is considered to be stable and dependable.**

- **Qualifying income must be based on the income of the person(s) signing the promissory note.**

- **The income must be anticipated to last for at least 24 months.**

- **This income may be based on projected income when determining base earnings, however, most underwriters use historical information from the previous 24 months to determine projected income from overtime, profit sharing, bonus, tips, commissions, part time work, seasonal employment, unemployment compensation, and self-employment as per RD Instruction 1980.347**

- **Refer to the Administrative Notice (AN) 3950 for more information on determining the repayment income for self employed GRH applicants. Historical income that is higher than the projected income (based on current wages and YTD earnings) must be explained and documented regarding the anticipated decrease in earnings.**

- **Non-taxable income such as child support or SSI may be grossed up 20%**

- **Vehicle allowances provided by an employer for the applicant to acquire transportation are considered as income for both compliance and qualifying purposes. The vehicle allowance cannot be used to offset the payment on the vehicle's debt from the Total Debt Ratio (TDR).**

- **No co-signors are permitted. Related or non-related co-borrowers who reside in the household are permitted.**

- **Pending pay increases that are scheduled to occur in the near future based on the VOE are <u>not</u> considered for qualifying purposes, however, they may be viewed as a compensating factor if a ratio waiver is needed.**

Loan Purposes

1. **Existing or New Homes including: Townhouses, Condos, & NEW Manufactured Housing.**

2. **Townhouses and condominiums must be property eligible for Fannie Mae, Freddie Mac, FHA, or VA financing. A First Right of Refusal in Condo documents and bylaws is ACCEPTABLE, as long as there is no discrimination involved. This definitely gives RD more flexibility in financing these affordable housing opportunities.**

3. **New Construction: End Loans and Permanent Financing Only. Applicants are responsible for obtaining their own interim construction financing, if necessary. Site loans may be refinanced as part of the new construction financing. Lenders must underwrite and obtain the Rural Development Conditional Commitment prior to beginning construction for GRH loans involving a Construction Contract.**

4. **Property repairs and improvements CAN be financed up to the "as improved" value of the property. Repairs and improvements must be completed before the final guarantee is issued. Escrows are allowed for exterior weather delayed repairs only and must total 150% of the estimated cost.**

5. **All of the buyers closing costs, including pre-paid expenses may be financed up to 100% of the appraised value PLUS the one time Rural Development guarantee fee of 2%. SO you may add the 2% into the loan regardless of appraised value!**

Refinancing

Limited to refinancing existing Rural Development Guaranteed and Direct Loans only.

- **Refer to the Administrative Notices (ANs)3902 for more information on refinancing existing GRH and Direct 502 Loans.**

- **Rural Development Direct 502 Loans may have subsidy recapture due. The recapture can be deferred (Rural Development maintains a lien and subordinates their mortgage) or it can be included in the payoff. A 25% reduction of the recapture amount is offered for payoff rather than deferral.**

- **Loan Term must be 30 years**

- **Fixed interest rate at or below the current rate.**

- **A 0.50% guarantee fee must be paid to Rural Development**

- **Compliance income limits and repayment ratios are the same as for an initial GRH loan.**

- **No insulation certification; No flood certification; No property inspection**

- **CANNOT refinance debts other than existing Rural Development GRH loan, or the Direct 502 Loan**

- **Can add or delete borrowers**

- **Property must be owner occupied**

- **Maximum loan amount can not exceed the balance of the loan being refinanced, plus the .50% 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% (based on the appraised value) for refinances if the 0.50% guarantee fee is included in the loan.**

- **Appraisals less than one year old may be used for GRH refinance transactions if the lender obtains a re-certification of value from the original appraiser. The LTV cannot exceed 100.5% of the property's original appraised value.**

- **A new appraisal is NOT required when refinancing only the unpaid principal on an existing GRH loan with the .50% guarantee fee. However, a new appraisal is required when refinancing a Direct 502 Loan or if interest and closing costs (including pre-paid expenses), are included in the new GRH loan.**

- **No cash back (except for nominal amount paid up front for credit check and appraisal). The applicants may receive any escrow refund from the old loan.**

- **The property may be in an ineligible (non-rural) area because of eligible area delineation changes by RD since the original loan was made.**

- **View the GRH Refinancing Chart in the GRH Forms section for more information.**

Minimum Loan Amount

NONE- Check with your investor.

Maximum Loan Amount

100% of the APPRAISED VALUE, PLUS THE 2% GUARANTEED FEE, or the amount applicant can repay, whichever is less.

- **Newly constructed homes without a 10- year insured builder's warranty or documentation for the three required construction inspections are limited to 90% LTV based on the appraisal.**

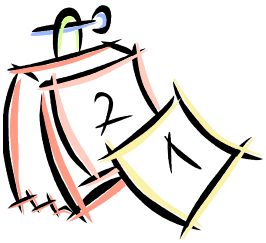
- **The total debt against the property can exceed the value if housing assistance for closing costs or down payment is made by a state or local agency and is secured by a "soft second". Grants by the state or local agencies for closing costs or down payment assistance are acceptable. Check with your investor or secondary marketing department for any restrictions they may impose in regard to the second liens.**

- **New GRH loans used for refinancing an existing Rural Development GRH or Direct 502 loan can be up to 100.5% LTV when including closing costs and the .50% guaranteed fee in the loan.**

Special Assessments

Special Assessments for work on the site actually commenced or levied prior to the date of the Offer to Purchase shall be paid by the seller, in most cases. If assumed by the buyer, properties with unpaid special assessments for site improvements, street improvements, or connection to municipal sewer and water systems are limited to 100% LTV based on the proposed loan amount AND the

unpaid balance of the special assessment as long as the total LTV does not exceed 100% .



Loan Term

*** 30 Year amortization only. Shorter or longer terms are not permitted. Since there are no pre-payment penalties, additional principal payments made by the borrower will shorten the loan's amortization period. For construction-permanent loans, the 30-year term begins the date of the loan modification to the permanent terms.**

Interest Rate

- **The maximum interest rate charged on GRH loans may not be more than the current Fannie Mae rate (which is the Fannie Mae 90 day delivery, plus 60 basis points) OR the lender's published/advertised rate for VA first mortgage loans with no discount points, whichever is higher.**

- **Most investors provide a daily rate schedule. GRH loan applications may be submitted to Rural Development with floating or locked interest rates. Conditional Commitments issued by Rural Development on applications with floating rates will always be at the lesser of the lender's proposed rate or the current Fannie Mae rate. The interest rate, when locked by the applicant and lender must be at an eligible rate of interest as defined above. If a lender locks an eligible interest rate that is higher than the rate shown on their Conditional Commitment, a revised Conditional Commitment must be obtained from RD approving the higher rate.**

- **The Fannie Mae web site for obtaining this rate is: www.efanniemae.com/sydicated/documents/mbs/apeprices/public/30fraac.html**

- **When looking at the chart of the Fannie Mae 30 Year Fixed Rates, the rate you need to be concerned with is the 90 day posted yield at the top of the**

chart, right under the date and time of the posted update. The 60 basis points are added to the 90-day posted yield to determine the maximum rate.

Guarantee Fee

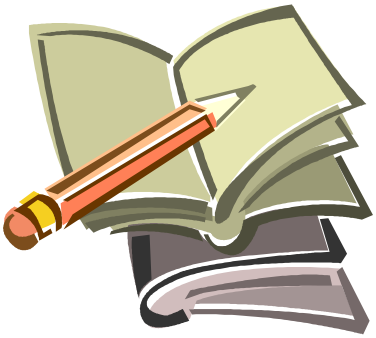
2% of the TOTAL LOAN AMOUNT for purchase transactions and .50% for refinance transactions. The fee may be included in the loan regardless of the appraisal value of the home. One way to calculate the final loan amount to include the fee, divide the proposed loan w/out the fee by .98 for purchases or .99 for refinances.

Example: $90,000 loan w/out the fee. $90,000/.98= $91,863.74 Final Loan
The guarantee fee is 2% of the final loan or $1,837.27

The Guarantee Fee is submitted to RD after the GRH loan has been closed. View the GRH Loan Closing Package Checklist in the GRH Forms section for more information.

Real Estate Tax & Hazard Insurance Escrows

Lenders are required to collect and maintain monthly escrows for Real Estate Taxes and Hazard Insurance. If you are unfamiliar with setting up escrows, please allow a 2 month cushion in the account for annual tax and insurance increases.



Credit Criteria

- **Refer to the Administrative Notice (AN)3948 for more information on utilizing credit scores for the GRH loan program.**

- **A 12-month Verification of Rent (VOR) will not be required by Illinois RD when the applicant has a 660 FICO Score or above. If there are 2 applicants, at least 1 must have a 660, and the 2nd can not have below 620 to still qualify for the streamlined documentation option.**

- **The representative credit score is considered to be the middle of three scores, or the lower of two.**

- **Non-Traditional Credit reports (or equivalent documentation) will have to be obtained for those applicants having insufficient credit information to develop credit scores.**

- **Lenders may take advantage of the streamlined credit documentation described in the Administrative Notice (AN)3967 for applicants with representative credit scores of 660 and above. A lender shall not be required to document adverse credit history waivers under RD Instruction 1980-D, 1980.345(d)(e), except those involving a delinquent Federal debt or previous agency loan.**

- **Compensating Factors are allowed to help justify loans for borrowers who have lower credit scores yet need higher ratios, and other situations. The lender's underwriter should approve waivers of recent adverse credit when justified and if the exception can be offset with compensating factors.**

Examples of adverse credit are listed under *"Waivers to Credit Requirements",* below.

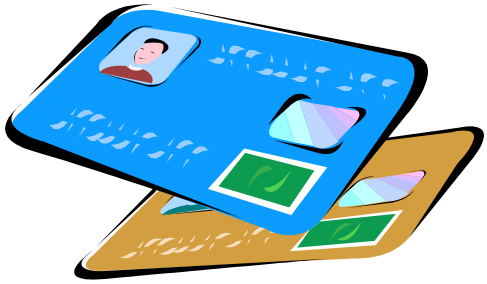
- **Applicants with a credit score of 619 or less would statistically have a high likelihood of default on their loan. HOWEVER, this does not make a borrower ineligible. The loan can be considered by the underwriters. Lenders should also highlight all positive aspects of the applicant's credit and employment. Please note that layered risk associated with the application should be avoided without very strong compensating factors.**

- **The credit of the primary wage earner will carry the most weight in the underwriter's decision. *Example: A co-applicant that is not employed, or contributing income to the household, could have marginal credit (credit below 620). The GRH loan may still be acceptable based on the strengths of the primary applicant if the co-applicant's income is not needed to show repayment of the loan.***

- **"Spouse Only" loans are permitted only if the lender has included the debts from the excluded spouse in the applicant's total debt ratio. The applicant must have the capacity to service all household debts since Illinois is a "marital property state". Any of the excluded spouse's debts that are in judgment status must be satisfied prior to closing. For compliance purposes, the excluded spouse's income must also be properly verified to determine the eligibility of the household.**

- **"No credit history/ No credit score" is not acceptable. A history of credit usage must be developed in order for the underwriter to make a reasonable determination of credit worthiness.**

Consult with your investor as to the minimum number of trade lines you need to verify. Documented non-traditional credit such as utilities, cable television, cell phone, rent, auto, and renters insurance is acceptable. Underwriters should not allow additional risk layering for these situations without strong compensating factors being present.



Examples of Risk Layering

1. **Payment Shock over 100%**
2. **Self-employment income with less than 24 months history**
3. **Repayment ratios exceeding the normal maximums of 29/41**
4. **No cash reserves**
5. **No history of savings**
6. **No previous housing expense**
7. **Unstable income based on recent 24-month employment history**
8. **Low credit scores due to recent late pays**
9. **Purchasing a home with a great deal of deferred maintenance**

Waivers to Credit Requirements

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

1. **The circumstances were of a temporary nature, were beyond the applicant's control, and have been removed.**

2. **The adverse action or delinquency was the result of a justifiable dispute because of defective goods or services.**

3. **Underwriters must document their credit waiver on Form 1008 or a similar underwriting worksheet.**

Examples of adverse credit that must be waived by the underwriter when the applicant's representative credit score is less than 660:

- **More than one 30 day late payment in the last 12 months**
- **Any account converted to collection in the past 12 months**
- **Any judgments outstanding in past 12 months**
- **Unpaid collection accounts, with no satisfactory arrangement for payments, no matter what their age, as long as they are currently delinquent and/or due and payable.**
- **Any debt written off in the past 36 months**
- **Two or more rent payments paid 30 days late within past 12 months**
- **Foreclosure in the past 36 months**
- **Bankruptcy discharged within the past 36 months**
- **Unpaid tax liens or delinquent government debts (including student loans)**

Refer to the "Repayment Ratio" section below, for a comprehensive list of common compensating factors that can be considered by underwriters to support a credit waiver.

Collection Accounts

It is a common underwriting practice for many conventional lenders to require the payment of unpaid collection accounts or charge off accounts prior to loan closing. If this practice is consistent with your investor's (Fannie Mae, FHLMC, and GNMA) underwriting guidelines, you should apply it to GRH loans as well.

GRH applications with representative scores over 660 for each applicant qualify for streamlined credit documentation, which would not require the payment of collection accounts prior to closing unless the lender's underwriter requires it. Rural Development does require that all judgments, garnishments or other delinquent credit that has the potential to affect the GRH loan's lien position be paid prior to closing.

The lender's underwriter is responsible for determining what collection accounts, if any, must be paid. Underwriters must determine that the applicants have an acceptable credit history and document any mitigating circumstances on their underwriting transmittal if they are not requiring the payment of all collection accounts. Collection accounts enrolled in Credit Counseling are acceptable, see "Credit Counseling" for more info.

Refer to the Administrative Notice (AN)3970 for more information on the treatment of collection accounts in the GRH loan program.

Credit History Verification

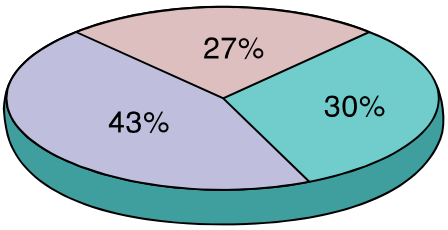
- **Refer to the Administrative Notice (AN)3967 for more information on the types of credit reports acceptable for use in the GRH loan program.**

- **RMCR's, MMCR's and NTMCR's that meet the standards of Fannie Mae, Freddie Mac, HUD, and FHA/VA are acceptable for Rural Development purposes. In the case of MMCR's, tri-merged reports are preferred.**

- **Non-traditional credit history may be required as discussed above in the "Credit Criteria" section.**

- **Lenders are expected to verify a satisfactory rent payment history covering the past 12 months. *(This is optional when both applicants have a credit score of 660 or higher OR the primary applicant has a score above 660, and the secondary applicant has a minimum 620 score.)***

Student Loans which will remain in a deferred repayment status for at least 12 months will not be counted in the Total Debt Ratio (TDR). Lenders are responsible for verifying the repayment status and repayment history of an applicant's student loans.



Repayment Ratios

See "DOCUMENT PAYMENT SHOCK" as stricter underwriting may be necessary.

1. **29% Housing Ratio (PITI) and 41% Total Debt Ratio (TDR)**

2. **There is not a maximum amount the ratios may be exceeded. Depending on the strength of the compensating factors, housing ratios in the mid to high 30's and total debt ratios in the mid to high 40's are not uncommon.**

3. **Non-taxable income such as child support and SSI may be grossed up 20%**

4. **All debts with MORE THAN 6 MONTHLY INSTALLMENTS REMAINING SHOULD BE CONSIDERED IN THE TDR. (Student Loans in deferment for 12+ months are not counted.) Other debts should be counted if they are reoccurring or otherwise have an impact on repayment ability.**

5. **Underwriters may request an exception to the 29/41 guidelines by properly documenting their decision to exceed the ratio guidelines. Generally, the amount of latitude given for ratio waivers is proportionate to the level of risk and compensating factors present in the loan application.**

6. **Refer to the Administrative Notice (AN)3940 for more information on compensating factors acceptable for use in situations involving significant payment shock.**

7. **Common compensating factors used by the Agency for GRH Loans include, but are not limited to:**

- **A representative credit score of 660 or higher for each applicant. The 660 score may be used by itself or coupled with other common compensating factors, to justify the debt waiver.**

- **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 previous housing expense compared to that of the proposed loan, or accumulated savings which, when added to the applicant's housing expense, shows a capacity to make payments on the proposed loan.**

- **The applicant receives compensation or income not reflected in the qualifying income, but directly affecting the ability to pay the mortgage.**

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

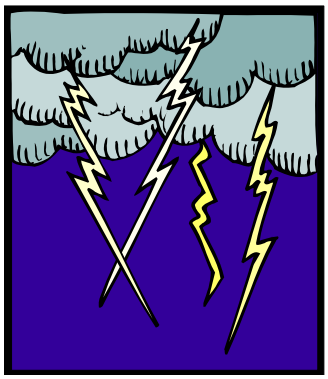
- **The borrower has substantial cash reserves after closing.**

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

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

- **Trailing Spouse Income- This could apply if the home is being purchased as the result of the relocation of the primary wage earner and the secondary wage earner has an established history of employment. The following must be documented: 1. The likelihood of the trailing spouse's return to work; 2. What are the reasonable prospects for securing employment in a similar occupation in the new area?**

- **A low Total Debt Ratio. The low TDR by itself does not compensate for a high PITI ratio. However, when other strong compensating conditions are present, a low TD ratio should be viewed as a positive mitigating factor.**



Document Payment Shock

Underwriters should document payment shock on Form 1008 or an equivalent underwriting worksheet. Refer to the Administrative Notice (AN)3940 for more information on analyzing payment shock and risk layering.

In cases where the payment shock is 100% or more as well as in cases where the applicant did not have prior housing expense, no additional risk layering (i.e. adverse credit waivers, debt ratio waivers, or buydowns) should be allowed without STRONG documented compensating factors. Acceptable compensating factors include, but are not limited to:

- **The borrower has an excellent credit history reflecting timely repayment of credit obligations**
- **Each applicant has a credit score of 660 or higher**
- **The applicant has demonstrated a conservative attitude toward the use of credit and an ability to accumulate savings.**
- **The applicant has a stable employment history over the past two years, demonstrating a dependable income stream**
- **The applicant has demonstrated an ability to pay housing costs similar to the projected P&I payment, taxes, insurance, and maintenance.**
- **The applicant has potential for increased earnings, as indicated by job training or education in the applicant's profession.**

Sellers Concessions

No Rural Development limit. Contact your investor or secondary marketing department. Typically, they are limited to 6%. However, some lenders may be limited to 3% depending on the servicing agreement they have with their investor.

2/1 Buydown Requests

A funded buydown account is designed to improve the applicant's repayment ability. Rural Development will consider buydown requests when there are compensating factors which indicate the borrower's ability to meet the expected increases in loan payment.

The maximum reduction which may be considered is 2% below the note rate. Reductions in buydown assistance may not result in an increase in the interest rate paid by the borrower of more than 1% per year. Buydown periods must be at least 12 months for each 1% of the buydown.

Compensating factors that will help strengthen a request for a buydown include: current employment has history of increasing income per year, a large debt not likely to re-occur is soon to be paid off within the next 24 months (i.e. student loan or personal installment loans.) Revolving charge accounts and car loans are not good examples since they can be easily renewed with new debt.

No additional risk layering should be allowed in cases where payment shock is 100% or more in cases where the applicant did not have prior housing expense.

New Home Financing & Construction Docs.

- **Rural Development can guarantee construction-permanent loans. The guarantee is not issued until the home has been completed and the closing package (including 2% guarantee fee) has been received by Rural Development.**

- **Builders may supply an insured 10-year builder's warranty from an Agency approved warrantor in lieu of obtaining the three construction inspections that are typically required. Call your Rural Development office for a list of approved 10 year warrantors.**

- **Full Documentation- Construction inspections and Plan Certifications (Form RD 1924-25) must be obtained from qualified individuals. Copies of construction inspections and Plan Certifications completed by a municipal building inspector at the appropriate intervals are also acceptable.**

- **Lenders must obtain copies of three construction inspections at the following intervals:**

1. **Framing/Footing Inspection (prior to back filling)**
2. **Rough In Inspection (shell is enclosed, walls are open, and mechanical systems are in place)**
3. **Final Occupancy Inspection (verify that any exceptions noted have been completed prior to submitting your closing package to Rural Development)**

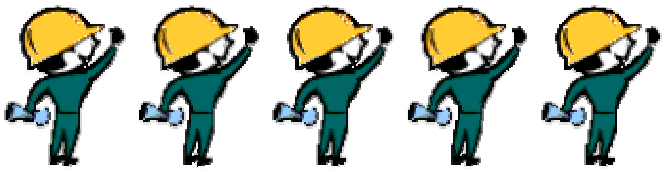
NEW ILLINOIS INSTRUCTION 1924-AA EXHIBIT E

- **<u>Alternative Documentation- In lieu of obtaining the Plan Certification (Form RD 1924-25) and the 3 construction inspections referenced above or the insured 10 year insured builder's warranty, lenders may submit the following documentation for new construction and dwellings less than 1 year old:</u>**

1. **<u>A copy of the dwelling's building permit</u>**

2. **<u>A copy of the dwelling's certificate of occupancy with no exceptions indicated.</u>**

(This method of documentation is only available in jurisdictions that issue a building permit and a certificate of occupancy (or equivalent). If a jurisdiction does NOT perform construction inspections and issue both a building permit and certificate of occupancy, full documentation is required, as described above.)



- **The standard underwriting package is delivered through the underwriter to Rural Development prior to construction for GRH loans involving a Construction Contract.**

- **The following additional forms are required for GRH loans involving Construction Contracts:**

1. **Form RD 400-1, Equal Opportunity Agreement**
2. **Form RD 400-6, Compliance Statement**
3. **Form RD 1924-25, Plan Certification**
4. **Form RD 1924-6, Construction Contract**

- **Only Form RD 1924-25, Plan Certification, and the three construction inspections (or 10 year insured builder's warranty) are required with a Purchase Contract where no funds are advanced until the dwelling is completed. Refer to the Alternative Documentation section above for those jurisdictions that complete construction inspections, issue building permits, and issue certificates of occupancy. (*Example: the purchase of a spec home from a builder in which the land and all improvements are included in a single contract.)Remember IL 1924-AA Exhibit E lists eligible communities.***

NEW Manufactured Homes

- **Existing manufactured (HUD code) homes are NOT permitted unless already financed by Rural Development (GRH or Direct 502 loan).**

- **Underwriters (and appraisers) must 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 Uniform Dwelling code (UDC) requirements as "stick built" homes.**

- **Existing homes that have the characteristics of a manufactured home must be underwritten carefully to verify that the home (or any part of the structure) is not a manufactured (HUD code) home. Some appraiser comments or characteristics to watch for include: mobile/manufactured home appearance, presence of FMHCSS tag on the dwelling, floor plan, slab or pier foundation, presence of skirting, presence of feature board walls, presence of metal structural components, evidence of ownership is a title, furnace and water heater is located on the main floor, etc.**

- **New manufactured homes must be purchased, installed and warranted from an Agency approved Dealer—Contractor. Check out a list of Dealer—Contractors approved for Illinois in the GRH Forms section. Dealers not listed on our approved list should contact any RD Office for the application and requirements for becoming an approved Dealer—Contractor.**

- **Dealer—Contractors must use a single construction contract to include the purchase of the home, installation of the home on a permanent foundation, and any other site development work. No "do it yourself" work by the applicant is allowed. The Dealer—Contractor must provide a 12 month warranty on all work completed under the construction contract, including the work completed by their sub-contractors.**

- **The set up requirements for Rural Development are different than those of FHA/HUD. The manufactured home must be financed as real estate along with the site.**

1. **The home must be permanently installed on the site with all running gear and towing equipment removed.**
2. **All foundation types must have a frost protected footings or perimeter.**
3. **Acceptable types of foundations for manufactured homes include anchor ties to footings, full basements, crawl spaces, and concrete slabs. All foundation footings or perimeters must be frost protected and enclosed with a permanent building material such as concrete, cement blocks, or treated wood.**

Modular Homes

Modular Homes are designed and constructed to meet all requirements of the International Residential Code, or other local code required for its destination, same as site-built construction. This is not the same development standard used for manufactured homes, "double-wides", or mobile homes, which meet a national safety and construction standard often referred to as HUD code. GRH loans on new modular homes are processed the same as stick-built homes.

Rural Development in Illinois does not require the second construction inspection (referred to as the "rough-in") for modular homes since they are constructed and inspected while in the factory. These homes are typically delivered to the site with the interior walls enclosed. GRH Homepages offers a list of the approved dealers in Illinois.

Existing Homes

1. **Private wells and septic systems must be inspected for code compliance and adequacy by a properly licensed individual. IF the Home Inspector or Appraiser can make a determination that the septic is adequate, and does not require an additional inspection Rural Development WILL NOT require a septic inspection either. HOWEVER ALL WELLS REQUIRE WATER TESTS AND INSPECTIONS TO ENSURE SAFE DRINKING WATER.**

2. **For all existing homes (more than 12 months old or previously occupied) inspections must be obtained to verify that:**

    - **The property must meet the requirements of HUD Handbooks 4150.2 and 4905.1. Your Appraiser can verify this by filling out a VC Sheet. These handbooks can be viewed at the following website: http://222.hud.gov/groups/lenders.cfm**
    - **The property must meet Illinois Rural Development Thermal Standards. The appraiser can usually make this determination, and recommend enhancement to the property if the proper thermal standard is not met. View the Thermal Standards in the GRH Forms section.**

3. **The lender may order a conventional appraisal and submit 1.) a completed VC Sheet: Please note RD has different standards for repairs noted on this report, Call you local RD office for guidance or 2.) a State Licensed Home Inspector Report. The appraiser or inspector must still address the RD Thermal Standard if they complete a VC Sheet. For more information, refer to the ANNOTATED VC SHEET on the IL GRH Website.**

4. **If the appraiser calls for an additional inspection, such as for electrical, furnace, foundation, or roof, that inspection must be obtained and be satisfactory. Again, a Home Inspection by a Licensed Inspector can address many of these concerns if any arise. Please remember that Rural Development is only trying to put borrowers into GOOD homes that do not**

require a lot of repairs. The inspections also offer peace of mind to our clients that no major repairs are necessary.

5. **Any repairs called for on the inspection(s) must be completed before Rural Development can issue a Loan Note Guarantee on the loan. However, the loan can be approved and the Conditional Commitment can be issued subject to the completion of the repairs.**

6. **The Lender, applicant, and seller must work out a plan for completing the required repairs. It is quite common for underwriters to require the completion of all interior repairs prior to closing. Typically, any deferred maintenance indicated in the seller's Real Estate Condition Report (RECR) or repairs indicated in the appraisal and RD Inspection report must be completed.**

7. **Any repairs that are completed with GRH loan funds must include a written estimate for materials and labor as part of the underwriting package. A re-inspection will be required to document the work was actually completed.**

No other loan program will allow escrowed repairs, or repairs in general to be rolled into the cost of the loan. Rehabilitation products will, BUT the credit standards and money to close can become an issue. Rural Development IS NOT a rehabilitation loan, but RD will help finance basic necessities such as roof, windows, insulation, and other improvements that keep the home is excellent condition for the borrower.

Repair Escrows

- **Lenders may escrow 1 ½ times the bid amount for materials and labor to complete <u>exterior weather delayed</u> repairs only.**

- **The escrow agreement must be based on a signed contract and allow for completion of the work within 120 days of the work commencing.**

- **The home must meet decent, safe, and sanitary requirements at the time of closing. (*For Example: It would not be permissible to escrow for repairs if an existing septic system has failed or if the water test indicated "unsafe".)***

- **Rural Development will issue the Loan Note Guarantee to the lender prior to the completion of the required repairs if a proper escrow account has been established.**

- **Dwelling repairs required by Rural Development on the Conditional Commitment must typically be completed prior to closing. Underwriters, at their discretion, may allow for the completion of repairs after closing, but prior to the issuance of the Loan Note Guarantee by Rural Development.**

IMPORTANT NOTICE: Rural Development will NEVER be the reason a loan cannot close. Rural Development will issue the loan note guarantee with an escrow for repairs, OR the lender may close the loan, finish the repairs, and then submit the final package for the loan not guarantee. So if the lender can wait a few days or a week to complete scheduled repairs, Rural Development will honor their commitment for a guarantee once the final inspection is completed!

Appraisal Issues

- **Lenders may use their own properly licensed or certified appraisers for completing appraisals on property financed with a GRH loan.**

- **It is recommended that lenders order a conventional appraisal and a VC Sheet. This will be more cost effective for the applicant and in many cases, result in more timely loan closings. Once again, if a licensed Home Inspection is done, you may submit the inspection along with a 2055 Appraisal, in lieu of a VC Sheet.**

- **The complete appraisal using the URAR (Form 1004) format or the Quantitative Analysis Appraisal Report (Form 2055) with all attachments is required.**

- **Appraisers using the 2055 format must complete an interior and exterior inspection and provide an estimate of the subject's site value. Refer to the Administrative Notice (AN)3934 for more information.**

- **An appraisal is not required when refinancing the PRINCIPAL ONLY of an existing Rural Development GRH loan. It is required on all cases of refinancing a Direct 502 Loan. See the section titled, "Refinancing".**

- **Appraisals should be done on an "as improved" basis to reflect the value of the property meeting Rural Development thermal standards and the HUD Handbooks 4150.2 and 4905.1.**

- **The appraisal must be less than six months old for home purchase transactions and less than one year old for refinance transactions.**

- **Appraisals on new homes (under 12 months old and not previously occupied) must include a detailed "cost approach" appraisal based on a nationally recognized cost handbook. Two common handbooks are the Marshall & Swift Residential Cost Handbook and the Boech Residential Cost Handbook.**

- **Appraisals must contain at least 3 comparable sales that are less than 1 year old. The gross and net appraisal adjustments must be conforming to conventional underwriting and USPAP guidelines.**

Site and Building Requirements

Refer to the National Regulation RD Instruction 1980-D, paragraphs 1980.312-1980.314 for more information.

- **Maps are available on the GRH Homepage website to view the county maps showing the areas eligible for GRH financing in Illinois.**

- **Dwellings must meet Illinois Rural Development Thermal Standards. View the Thermal Standards in the GRH Forms section. (Appraiser may approve)**

- **No in-ground swimming pools are permitted. Exceptions can be considered on a case by case basis by the National Office. Any value attributed to above ground pools will be deducted from the appraised value since they are viewed as personal property.**

- **Dwellings financed should be of a residential nature and not closely associated with farm service buildings or commercial/industrial property. *(Underwriters typically expect reasonable zoning compliance. A good rule of thumb is that homes lacking residential zoning should be bordered on three sides by residential types of property.)***

- **Income producing structures (including side by side duplexes) or land cannot be financed. Other structures of a storage nature (with low contributory value) are allowed, besides the house and a garage, subject to their value and the site's value being under 30% of the total value.**

- **Non-income producing sites can be financed regardless of size as long as the contributory value of the site and other structures is less than 30% of the total value. The 30% limitation may be exceeded if the site cannot be further subdivided for residential purposes based on its current zoning.**

- **Hobby farms and farmettes are not eligible for financing since they generally include income producing land structures.**

- **Property must be contiguous to and have direct access from a street, public road, or driveway. Streets and roads must be hard surfaced or an all weather surface (i.e. not a single land dirt road). Shared driveways are permitted as long as the access to the property is transferable with the title to the property.**

- **Property with non-conforming features such as: only 1 bedroom; small square footage of the site or dwelling, slab foundation, log homes, A frames, dome homes, etc. or homes with other types of functional obsolescence; may not be suitable for GRH financing. The appraisal must be made using similar comparable sales (i.e. having the same features) with acceptable gross and net adjustments and a similar value per square foot of living area. This is rare to encounter.**

Condominiums

- **Condominiums, Planned Unit Developments (PUD), or other dwellings served by a home owners association (HOA) may be accepted when the project has been approved or accepted by HUD, VA, FNMA, or FHLMC. *(The lender's underwriter is responsible documenting the acceptability of the condo based on secondary market criteria. Unwarrantable condos cannot be accepted.)***

- **First Right of Refusals in Condominium Documents CAN BE OVERLOOKED IF there is no evidence of discrimination present in the purchase contract.**

- **Small residential condominiums that are not served by a home owners association (HOA) based on the condominiums documents, may be eligible for GRH financing. *(The lender's underwriter must determine the acceptability of the project's condo documents.)***

Well and Septic Inspections

- **A local Health Department, IL Department of Public Health, or an Illinois Certified Lab, must inspect all private wells for adequacy and compliance with current state codes. Any observations of non-compliance must be noted on the report.**

- **Non-conforming wells and septic systems must be brought into compliance with current standards codes to ensure safe and sanitary dwellings.**

- **In almost all cases, basement wells are illegal and must be relocated outside of the dwelling's foundation. Pit wells and dug wells must be brought into compliance with current standards.**

- **Driven point wells may be eligible depending upon the well's location, type of installation, and capacity. Approximately 5 gallons per minute (GPM) is considered an adequate well capacity to supply a normal household.**

- **Shared wells located on the subject property are permissible as long as the existing shared well agreement contains no adverse clauses. A shared well that is not located on the subject property may be acceptable if a HUD Shared Well Water Agreement is signed by all parties and is properly recorded.**

- **All private wells must be tested for bacteria, nitrates and any other contaminants known to cause health hazards in the area. The water tests must be considered "safe" based in EPA drinking water standards. View an EPA Safe Drinking Water Standards document in GRH Forms for the maximum contaminant level guidelines.**

- **Wells with unsafe levels of nitrates will require the installation of an individual water treatment system that has been approved by the State of Illinois. Lenders must verify that an acceptable water treatment system has been installed.**

- **All types of state approved septic systems are eligible. The septic inspection report, if necessary, must clearly describe the type of system, the adequacy of the system relative to the dwelling's size, compliance with current septic codes, and comment on any evidence of failure. View an example of a septic inspection report in GRH Forms. Holding tanks will be accepted for new construction financing only if no other alternative is possible on the site.**

Cheers to safe drinking water, and sanitary septic!

Environmental Issues

- **Lenders must submit FEMA Form 81-93, Standard Flood Hazard Determination, with each GRH Loan application. Lenders typically obtain a life of the loan certification from the provider of the determination.**

- **Flood Insurance is required anytime the foundation of any dwelling is located in Zone A (100 Year Flood Zone). With Flood Insurance in place, RD will Guarantee the loan. Since Flood Insurance is typically more expensive than regular coverage the buyer may roll the cost of the first year premium into the loan note (as long as 102% Appraised Value is not exceeded.) This may help assist those buyers in Flood Zones.**

- **Property located in unmapped areas (Zone D) or in non-participating communities where the risk of flooding is unknown, may be eligible based on the lender's analysis of the flooding history in that area.**

- **If you feel a dwelling is not in danger of flooding you may obtain an Elevation Survey, submit to FEMA in hopes of obtaining a Letter of Map Amendment (LOMA). With the LOMA Flood Insurance IS NOT required.**

- **More information about FEMA, including Letters of Map Revision (LOMR) and Letters of Map Amendment (LOMA) can be found at:**
  www.fema.gov/mit/tsd

- **Properties with underground storage tanks (residential use) must be registered with the State of Illinois Safety and Buildings Division. Abandoned underground storage tanks must be removed from the site.**

- **Properties with asbestos on the interior of the dwelling (typically found on the heating ducts in older homes) must have the asbestos material encapsulated or removed by a qualified individual.**

- **Since homes build prior to 1978 may contain lead-based paints, lenders should ensure that their applicants have received a copy of Addendum S-Lead Based Paint Disclosures and Acknowledgements, as part of their Offer to Purchase.**

- **Any peeling, flaking, or chipped paint noted in the appraisal, VC Sheet, or Home Inspection Report, must be abated in accordance with HUD guidelines.**

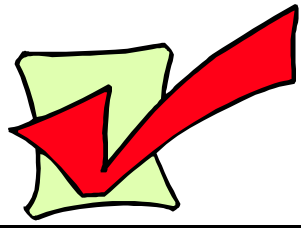
Homebuyer Education

Lenders are encouraged, but not required, to offer Homebuyer Education to first time homebuyers. Any format that is sponsored by Private Mortgage Insurance companies is acceptable. Rural Development would encourage and support any program conducted by the lender that is approved by Fannie Mae, Freddie Mac, FHA, VA, or IHDA.

The National Foundation of Credit Counseling (NFCC) publishes the "Keys to Homeownership", which is an excellent homebuyer education workbook. Copies can be purchased by contacting NFCC Housing Department at (301) 589-5600, ext. 20.

A Housing Counselor's directory is available on the HUD website at: www.hud.gov/offices/hsg/sfh/hcc/hccprof14.cfm

No cost homebuyer education is available on-line through the Nehemiah non-profit organization. Their website is: www.getdownpayment.com, Upon completion of the course, applicants will have to pass a test in order to receive their completion certificate.



Other Applicant Eligibility Criteria

- **Refer to RD Instruction 1980-D, paragraph 1980.346 for more information.**
- **Applicants applying for GRH assistance must not own an adequate home within the commuting area at the same time of the GRH purchase.**

Examples:

1. ***An applicant is relocating to a new job, which is across the state. They are selling their existing home so they can afford to purchase a new home.***

2. ***An applicant owns an existing manufactured home located on a leased site. They are selling their manufactured home and purchasing a site and new manufactured home through a Dealer/Contractor.***

3. ***An applicant owns a home in which they are in the process of selling. They will complete the sale of their current home prior to or simultaneously with the purchase of their new home.***

4. ***An applicant is currently renting or residing at home with relatives and decides to purchase a home.***

- **Applicants must personally occupy the dwelling**

- **Applicants must be a U.S. Citizen, a U.S. non-citizen national or a "qualified alien".**

- **Refer to the Administrative Notice (AN)3881 for more information on the definition of a "qualified alien" and the specific types of documentation needed to verify the immigration status of an applicant.**

1. **Applicants who indicate "No" to Item J in Part VIII of their application indicating that they are not a U.S. Citizen must provide documentation indicating their immigration status.**
2. **A copy of the front and back of INS Form I-551, Alien Registration Receipt Card (for permanent resident aliens) is the most common type of documentation obtained by lenders. Other types of acceptable documentation are described in the Administrative Notice (AN)3881.**

Retaining an Existing Home as Rental Property

- **Generally borrowers must sell their existing home (or manufactured home) prior to closing. However, borrowers may retain property that does not meet their current needs, or is outside of the commuting area.**

- **The value of any retained assets except essential vehicles, household furnishings, and the financed property, must be determined in order to calculate the income from "net family assets". Refer to RD Instruction 1980-D, paragraph 1980.347(d) (3) for more information.**

Reasonable Costs and Fees

- **Lenders may charge normal and customary fees for their services as long as their fees do not exceed the charges or fees routinely made by the lender for similar transactions such as IHDA, FHA or VA.**

- **Other conforming high LTV home mortgage products (excluding sub-prime) can also be used for comparison. This documentation is not routinely requested as part of the loan application process unless the fees observed on the Good Faith Estimate appear to be unusually high for that market. The 2% Guarantee Fee should not be included when making the comparison.**

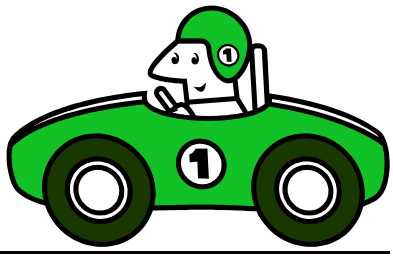
- **Refer to the Administrative Notice (AN)4000 on this topic for more information.**

- **Discount points may only be charged in cases where the interest rate is being bought down below the current FNMA rate. Discount points can only be financed for low income applicants.**

Rural Development Turn Around Time

- **Rural Development strives to respond within 24 Hours of receiving a complete (underwritten) application. Lenders will be notified immediately if their application package is incomplete.**

- **While RD is not underwriting the loan, we must verify that certain applicant and property compliance issues have been met. This includes a determination that all household income has been verified and is within the maximum amount allowed; verifying that the underwriter has properly documented any ratio or credit waivers, completing an environmental analysis, reviewing the appraisal; and verifying that Thermal Standards and HUD property requirements have been met. Depending on the availability of staff and the quality of your package, many files are reviewed and approved the same day they are received. If a request cannot be reviewed within 48 hours, the lender will be notified with the reason for delay.**



Getting Started

Educate your loan originators, processor, underwriters, and closing department. Illinois has 30 Area, Local, and Satellite Offices located throughout the state. Our State Office in located in Champaign. Lenders should request GRH training from their nearest Rural Development Office or by contacting the State Office.

Thoroughly review this material, the RD-Instruction 1980-D, and the referenced Administrative Notices (ANs). ASK QUESTIONS!

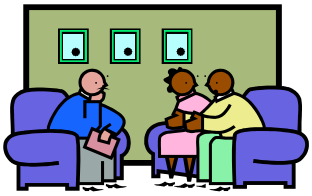
This handbook and the referenced AN's are available for viewing and downloading from our Illinois Guaranteed Website: http//: www.rurdev.usda.gov/il/grh.htm

Review the GRH Loan Application Processing Checklist located in the GRH Forms section.

Review the "Processing Guide" on page 52 to understand the typical "file flow".

Contact Rural Development for the names of other lenders experienced in the GRH loan program. Call them for some insight. (*Lenders report back their amazement at how easy this program is to administer.)*

Help Make Homeownership Wishes.....Reality!



Credit Counseling

Illinois Rural Development WILL allow borrowers to currently be in Credit Counseling and still purchase a home through the Guarantee Program. Credit Counseling demonstrates a borrower's initiative in resolving their debts in a responsible manner. Rural Development would prefer the borrower have been enrolled and making timely payments for a minimum of 6 months. Canceled checks, or a print out from the Debt Counseling Agency will be sufficient evidence of timely payments. If the borrower has been in counseling for less than 6 months STRONG compensating factors must be present. (See "Repayment Ratios" for a list of compensating factors that may are most commonly used.)

Enrollment in credit counseling also satisfies requirements for collections a borrower may have that need "satisfactory payment arrangements". If it is a medical collection, most insurance companies or physician offices will assist in payment arrangements as well.

Reservation of Funds

The originating lender or broker may submit a "Reservation of Funds" after the applicant has an accepted Offer to Purchase. This process assures all parties that the GRH funding is available prior to processing and underwriting the file. The availability of funds is generally good throughout the year. During the months of September or October, Conditional Commitments may be issued subject to the approval of new fiscal year budget or continuing resolution for our Agency.

1. **Fax Form RD 1980-86, Reservation of Funds, to the Rural Development Office serving the county where the property is located.**
2. **Rural Development will fax a "Confirmation of Funds" to the originator usually within the same day. The GRH funds remain in a "reserved" status, pending the receipt of a complete file from the lender's underwriter. All "Confirmation of Funds" will expire in 60 days or on September 30th each year, whichever comes first.**

Submitting the Loan

Illinois Rural Development offers a dual delivery system to its GRH lenders through its State Office and 14 full time Local Offices. Lenders may always submit their files to the State Office, but are encouraged to build a partnership with their Local Office for questions, and loan approval.

- **RD may issue Conditional Commitments to seller/servicer lenders who retain the servicing of the GRH loans they originate and prefer a decentralized method of program delivery.**

- **RD may also issue Conditional Commitments to approved lenders or investors who underwrite GRH loans on behalf of loan originators or mortgage brokers. Form RD IL 1980-21 should be used as a cover sheet to their investor's underwriter so that they know which RD office you prefer reviewing you file. Original signatures are required on this form.**

- **Approved lenders and loan originators should select the type of delivery system, centralized or decentralized, that works best for their business. Loan originators should consult their underwriting department or their investor for guidance on this issue.**

Changing the Loan Amount or Interest Rate

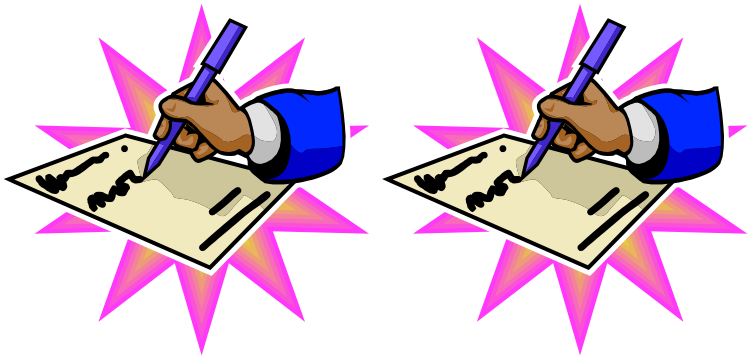
Once Form RD 1980-18, Conditional Commitment for SFH Loan Guarantees, has been issued to a lender, no increases to the loan amount or interest rate are permitted without prior written concurrence from Rural Development.

Lenders must not close a loan at an interest rate or dollar amount higher than indicated on the Conditional Commitment without RD's knowledge!!

Decreases in the loan amount or interest rate DO NOT require Rural Development concurrence.

An eligible increase in the loan amount can be approved. The lender must submit a revised Form 1008, and Form 1980-21 indicating the proposed use of the loan funds. If the new repayment ratios exceed the 29/41 guidelines, the lender must request a ratio waiver as described in the "Repayment Ratios" section. A revised Conditional Commitment will be issued to reflect the increased loan amount, if approved by Rural Development. Verbal concurrence may also be available from Rural Development to expedite the process.

An increase in the interest rate will be permitted if the lender submits a revised Form 1008. If the new repayment ratios exceed the 29/41 guidelines, the lender must request a ratio waiver as described in the "Repayment Ratios" section. A revised Conditional Commitment will be issued to reflect the increased interest rate, if approved by Rural Development. The new interest rate will be updated on the final approval package. This takes only a short time to process.



Do NOT close the loan until both your underwriter's and Rural Development's conditions have been satisfied.

Loan Closing

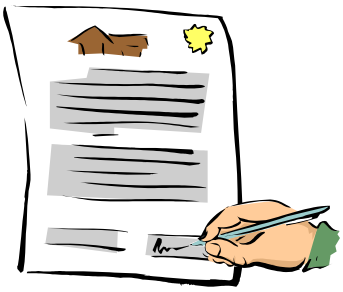
- **If requested, Rural Development will review your documentation prior to closing to verify that you have satisfied the conditions listed on the Conditional Commitment.**

- **Make certain that the loan amount and interest rate matches (or is less than) the amount and rate shown on the Conditional Commitment.**

- **Make sure the Guarantee Fee is 2% of the FINAL loan amount for purchase transactions or .50% for refinance transactions.**

- **Submit the closing package and guarantee fee to the Rural Development office that issued the Conditional Commitment.**

- **Upon receiving Form RD 1980-17, Loan Note Guarantee from Rural Development, attach it to the original promissory note as evidence of the guarantee.**



Loan Note Guarantee Coverage

Rural Development's guarantee provides lenders with better protection than most types of mortgage insurance at a lower cost to the applicant. Because of the high quality of our guarantee, GRH loans are sellable on the secondary market, resulting in good value for both lenders and homebuyers.

- **Lenders are protected 100% on the first 35% of the Original Loan Amount. Any loss in excess of the first 35% is covered by an 85% guarantee.**

- **The following briefly explains the loss claim process:**

1. **Add all unpaid accrued interest, principal, foreclosure costs, all REO costs, interest from foreclosure date to REO sale (maximum of 6 months), and all REO sales expense to determine gross investment. Subtract gross REO sale price from gross investment to determine the loss.**
2. **Multiply the original loan by 35%**
3. **Rural Development pays *the lesser of* all loss determined in Step 1 or 35% of the Original Loan**
4. **RD pays 85% of any loss remaining unpaid from Step 3.**

The maximum loss payable is 90% of the original principal borrowed.

For more information on electronic reporting, loss claims and the servicing of GRH loans click on Loan Servicing and Loss Claims located on the GRH Website Homepage.

Replacement Forms

Official Agency forms can be downloaded from the following website:
http//:rdinit.usda.gov/regs/formstoc.html

GRH Web Resources

- **Updates to this handbook, current and past program updates, (Lender Memos), a forms set, a servicing guide, and most National AN's (referenced throughout this handbook) are available from Illinois Rural Development website: www.rurdev.usda.gov/il/grh.htm**

- **The National Regulation for GRH loan program is RD Instruction 1980-D. The income limits are an attachment to that regulation referred to as Exhibit C. The 1980-D regulation is particularly useful for answering questions regarding income and adjustments to income.**

- **Other regulations that cover parts of the program are RD-Instruction 1924-A (construction issues), RD 1940-G (environmental), RD 426-2 (flood insurance, construction in flood zones).**

- **The National Rural Development regulations referenced above can be downloaded from the website: rdinit.usda.gov/regs. Current Administrative Notices (AN's) referenced in this handbook can also be found at: rdinit.usda.gov/regs/an list.html.**

Rural Development Home Pages

- **The USDA- Rural Development national home page is located at: www.rurdev.usda.gov. Look for the Single Family Housing Programs. There is a map where you can click on a State to find out more information about that State's programs. This is useful for finding GRH contacts in other states.**

- **An "Eligibility" website is being developed to help lenders determine property location eligibility and household income eligibility. The website address is: http://eligibility.sc.egov.usda.gov/eligibility/mainservlet.**

This site will allow you to simply enter a property address to determine if the location is eligible for Rural Development assistance.

- **To directly access Illinois Guaranteed Rural Housing Program information, go to: www.rurdev.usda.gov/il/grh/htm.**

Other Useful Sites

The following websites may be useful to you when looking for information on the GRH loan program and other homeownership related issues.

www.rurdev.usda.gov : USDA Rural Development National Office website. Agency information and USDA e-forms are available here.

www.rurdev.usda.gov/il/grh/htm : Illinois Rural Development website. Local Office locations and RD program information are available here.

www.hud.gov/groups/lenders.cfm : HUD information for lenders on various home financing topics, including required disclosures. This site provides access to the HUD reading room where you can obtain handbooks, mortgagee letters, and forms. A link is also available to search for FHA approved condominiums.

http://www.hud.gov/offices/hsg/sfh/lender/lenders.cfm : This site provides a list of FHA appraisers who may be qualified to certify a property's compliance with HUD Handbooks 4150.2 and 4905.1.

www.cifsbo.com : This site provides a real estate directory for homes available for sale by owner in Illinois.

www.realtor.com : This site provides a real estate directory for homes available for sale in Illinois as well as Realtor links. This website is also great for market research.

www.homeloans.va.gov : This site contains lender and applicant information for the Federal VA Home Loan program. This site also contains a list of Federal VA approved condominiums.

www.fema.gov : Information on the National Flood Insurance Program (NFIP) and FEMA Form 81-93, Standard Flood Hazard Determination, can be found here.

www.getdownpayment.com : On line homebuyer education program offered through the Nehemiah non-profit organization.

www.efanniemae.com : This site provides access to the current FNMA rate used by the GRH loan program. The single family originating and underwriting link will provide access to a list of FNMA accepted condominiums.

www.pfho.org : This site contains information by the Partnership for Homeownership Foundation on rural housing initiatives.

www.ihda.org : This site contains information by the Illinois Housing Development Authority on a variety of housing programs.

DISCLAIMER: The material is mostly in bulleted format. It does not contain the full context of the Agency regulations. This is intended to be a brief overview that incorporates the essence of the Agency's national regulation and Illinois specific requirements. Because if is Illinois specific, it may not be suitable for use in other states. The information contained herein should provide adequate information for the processing of the majority of your GRH loans. Underwriters should consult with the Agency Guaranteed Housing Specialists or your local Rural Development Managers for guidance in unusual cases.

Rural Development Loans and YOU!

Something to CHEER about!

GRH PROCESSING GUIDE

i. **Complete Form 1980-21 and Form AD-1048 with the applicant at the time of application.**

ii. **Fax the Reservation of Funds to the appropriate Rural Development Office.**

iii. **Rural Development will return a "Confirmation of Funds" for the requested amount. The funds are set aside for 60 days while you process the loan through underwriting and RD's loan approval. Upon approval of the loan RD will issue the Conditional Commitment to the lender listing any loan approval conditions. The Conditional Commitment provides you a 90-day window to close the loan and submit your closing package with the Guarantee Fee to Rural Development.**

iv. **Complete your loan origination package: Submit to your underwriter. Use the GRH Loan Application Processing Checklist located in the GRH Forms section.**

v. **If your underwriter or investor approves the loan, they will send RD a complete package with the underwriter's approval and supporting documentation. <u>Do not submit your loan packages simultaneously to your underwriter and Rural Development.</u>**

vi. **Rural Development will review the underwritten application package and issue a Conditional Commitment, indicating any approval conditions, directly to the underwriter. Typically, a copy is faxed to the originator.**

vii. **The underwriting lender will inform the originating office and closing department of the loan conditions set by both the underwriter and Rural Development.**

viii. **The closing lender closes the loan if all underwriter and Rural Development conditions have been met.**

ix. **The underwriting/closing lender submits a closing package to Rural Development to obtain the Loan Note Guarantee. Refer to the "Loan Closing" section for more information.**

x. **Rural Development issues the Loan Note Guarantee to the approved underwriting/closing lender. The Loan Note Guarantee must be attached to the original promissory note as proof of guarantee in the event of a loss.**

Rural Development and YOU!
Helping MORE buyers "ACHIEVE THE DREAM" of Homeownership!