

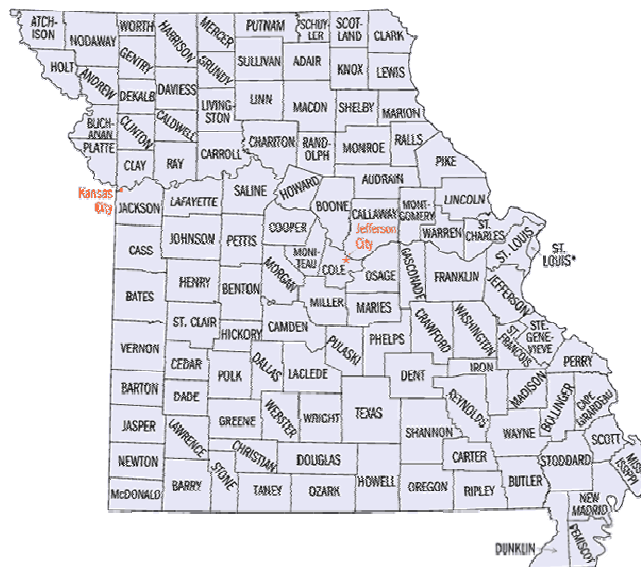


"Committed to the Future of Rural Communities"

Guaranteed Rural Housing Program Lender Handbook

Loan Origination and Underwriting
for the Guaranteed Rural Housing
Loan Program in Missouri

September 2006



www.rurdev.usda.gov/mo/

This handbook was produced by the Rural Housing Committee of the Missouri Association of Credit Specialists and Missouri Association of Support Personnel.

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Suggested Forms

- Adverse Credit Waiver Request
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- Debt Ratio Waiver Request/Payment Shock Form
- Telephone Confirmation of Employment

Sample Required Forms

- Request for Reservation of Funds
- Request for Single Family Housing Loan Guarantee
- Existing Home Component Systems Certification
- New Home Component Systems Certification
- Guaranteed Loan Closing Report

GUARANTEED RURAL HOUSING (GRH) PROGRAM ADVANTAGES

- **No down payment.**
- **No monthly mortgage insurance payment.**
- **No cash reserves required.**
- **No minimum credit score.**
- **No maximum loan amount or purchase price limits. Loan amounts are limited only by the applicant's repayment ability and the property's appraised value.**
- **No limitation on source of closing costs. 100% gifted closing costs or down payment assistance are permitted.**
- **Repairs, closing costs, and the one-time Rural Development guarantee fee of 2.0% can be financed, but not to exceed 102% of the LTV. (The loan can only exceed 100% of the appraised value by the amount of the guarantee fee being financed.)**
- **Seller concessions are allowed to pay loan closing costs and repairs. (Consult your investor for the maximum allowed.)**
- **Affordable fixed interest rate with 30-year term.**
- **Premium pricing and service release premium may be available.**
- **No Rural Development prior approval of appraisers or builders required.**
- **Any lender may participate with formal Rural Development approval. Lenders may participate as originators without formal approval.**
- **Prompt review by Rural Development within 2 business days.**
- **Lenders may charge normal and customary fees for their services, in comparison to their charges for other similar government loans.**
- **Expand your mortgage customer base. You also have a chance to cross sell your other lending services to this customer.**
- **Obtain Community Reinvestment Act (CRA) credit and generate fee income with little or no risk.**
- **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. There are approximately 300 lenders with nationwide approval and 325 lenders with Missouri approval who are eligible to purchase GRH loans.**
- **Use of standard secondary market approved documents. (Very few Rural Development forms are needed in a typical file).**
- **Local Rural Development offices are available for training and outreach assistance.**
- **RD's guarantee provides better loss protection than private mortgage insurance, with lower cost to the customer.**



United State Department of Agriculture
Rural Development

QUICK REFERENCE GUIDE FOR
MORTGAGE FINANCING IN RURAL AREAS

	RURAL DEVELOPMENT GRH	FHA	CONVENTIONAL
PITI Ratio (Principal, interest, taxes and insurance)	29%	29%	28%
TD Ratio (Total Debt)	41%	41%/43% energy efficient	36%
Maximum LTV	102% (including 2% guarantee fee)	97.75% > \$50,000 98.75% < \$50,000	97%
Loan Terms	30	15-30	15-30
Interest Rate	Market – Fixed	Market – Fixed or variable	Market – Fixed or variable
Monthly Mortgage Ins.	None	.5%	.78% - Can vary based on product
Guarantee Fee	2.0% of loan amount	1.5% MP	N/A
Cash Reserves	None required, but will allow up to 20% of loan amount	1 Month PITI	1 Month PITI
Source of Down Payment	N/A	Not restricted	Applicants must pay closing costs and escrows
Source of Closing Costs	No Limitation	Seller can pay up to 6% of buyers costs	Applicant (gifting is limited depending on the product)
Premium Pricing	Yes	Yes	Yes
Automated Underwriting	No (very limited)	Yes	Yes

Handbook Disclaimer: This Handbook does not contain the full context of Rural Development (RD) regulations. It is intended as an overview of the essentials of national regulations and Missouri specific requirements. Because it is specifically for Missouri, some issues will not apply to other states.

Regulations & Administrative Notices

The Rural Development Guaranteed Housing Program is governed by regulations contained in RD Instruction 1980-D. These regulations are supplemented by Administrative Notices (AN's) which help to explain the regulations in further detail. To read the most up-to-date version of regulations and AN's, you may visit the Rural Development website at www.rurdev.usda.gov. You would then navigate to these regulations by clicking on "Regulations" in the blue bar. You would then click on "Instructions", then click on "Part 1980 General", then choose 1980-D in either of the formats you prefer (Adobe Acrobat, Word, or Text). The regulations will be downloaded in whichever format you choose. You will note that you will also see links at that site for the AN's which apply to 1980-D regulations, as well as a link to Guaranteed Program Income Limits for the nation. In order to see a listing of the subject matter of these AN's, return to www.rurdev.usda.gov/regs/ and click on the Administrative Notices link. You will see a listing of all AN's. After the AN number, you will see a number that identifies the regulation the AN pertains to. Look for AN's that pertain to 1980-D.

Rural Development Local Office Locations in Missouri

You will submit your *Request for Loan Note Guarantee* and loan package to the local office serving the county where the home is located. From www.rurdev.usda.gov, click on "State Offices". Then click on "Missouri", and then on "Offices", and then choose "Local Office Information". Then click on the county where the home is located.

Missouri Single Family Housing Guaranteed Lender Website - Your one-stop shop!

For your convenience, the Missouri State RD Office has included links directly from the Missouri Home page for almost everything you will need to complete the Guaranteed loan package. At one site, you will find links for required forms, the Missouri checklist, Income & Property Eligibility information, RD Instruction 1980-D, an on-line version of this handbook, instructions on becoming an approved lender, etc.

**Missouri Single Family Housing
Guaranteed Lender Website:**

www.rurdev.usda.gov/mo/grhpage.htm

LOAN PURPOSES

1. Buy existing or new homes, including modular housing and new manufactured homes. Townhouses and condominiums must be property eligible for Fannie Mae, Freddie Mac, HUD, or VA, and the homeowners must control the Homeowners' Association.
2. New construction: Originate the application package and have the appraisal completed based on the approved plans. **Submit a complete application and obtain the RD Conditional Commitment *prior to proposed construction*.** The guarantee is only issued for the permanent loan after construction is completed. The Construction Loan financing is **NOT** guaranteed.
3. Existing homes and repairs/improvements: Repairs and final inspection must be completed before the Guarantee is issued. The appraisal and loan can be done on an "as improved" basis.
4. All typical buyers' closing costs, including the one time RD guarantee fee.
5. For applicants in the Low Income Category only, you can finance loan discount points to reduce the note interest rate from the rate authorized in 1980.320 of 1980-D, not exceeding the amount typical for the area. A link to the Low Income Limits can be found at the Missouri Single Family Housing Guaranteed Lender website: www.rurdev.usda.gov/mo/grhpage.htm, or you can contact the applicable RD Local Office.
6. Refinancing
 - Limited to refinancing RD Guaranteed loans and RD Direct loans only.
 - RD Direct loans may have subsidy recapture due. The recapture will be included in the payoff. A 25% reduction of the recapture amount is offered for a payoff, or the recapture can be deferred. If deferred, RD would subordinate it's lien position.
 - The interest rate must be fixed at or below the interest rate of the existing loan and the term must be 30 years.
 - A one half of one-percent (0.5%) Guarantee Fee applies.
 - Income limits and ratios are the same as for an initial loan.
 - There is no requirement for a new property inspection or for new thermal & flood certifications.
 - Can add borrowers or delete borrowers if the remaining borrowers meet the requirements for a loan.
 - Must be owner occupied.
 - The maximum loan cannot exceed the balance of the loan being refinanced, plus the Guarantee Fee, and reasonable and customary closing costs, including funds necessary to establish the new escrow for taxes and insurance.

- Appraisal: is not required when refinancing only the unpaid principal and Guarantee Fee on an existing GRH loan. An appraisal is always required when refinancing (1) a Direct loan or (2) an existing GRH loan when accrued interest or closing costs in addition to the Guarantee Fee are involved.
- No cash back, except for any fees prepaid by the borrower, such as the credit report and appraisal fees. In the rare event that there are excess funds, they must be used to reduce the new loan principal.
- Any existing RD Direct or Guaranteed Housing Loan is eligible for refinancing, regardless of whether the property is located in an area no longer eligible for RD programs. The Local RD office can be contacted for clarification on the eligibility, for refinancing, of a particular loan.

MINIMUM & MAXIMUM LOAN AMOUNTS

1. There is no set minimum; however, property suitability requirements will dictate a typical minimum loan amount to purchase existing housing in a specific geographical area. Check with the local RD office for specific information.
2. The maximum guaranteed loan cannot exceed the appraised value, plus the 2% guarantee fee if financed, or the amount the applicant can repay based on their ratios, whichever is less.
3. The total real estate debt (Guaranteed loan plus any second mortgage) can exceed the value of the property if a loan for closing costs or down payment is made by a state or local agency and secured by a 'soft second' lien. Check with your secondary marketing department for any restrictions they may impose in regard to the second liens. Grants made by state or local agencies for closing costs or down payment are also acceptable.

RATES & TERMS

1. 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. The Guarantee applies only to the permanent loan, not the construction loan.
2. The maximum interest rate is 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. The rate may float until locked. The Fannie Mae website for obtaining this rate is:
<http://www.efanniemae.com/syndicated/documents/mbs/apeprices/public/30fraac.html>

3. 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 rate to determine the maximum rate.

2/1 BUYDOWN REQUESTS

1. Must be pre-approved by the local RD office BEFORE processing the file.
2. Buydown accounts are to be funded by the seller, lender or another 3rd party with no agreement of repayment by the buyer. The buydown account is to be fully funded for the buydown period.
3. Lenders must show that the applicant's income will increase at the end of the first and second year to offset the increased payments.

GUARANTEE FEE

1. The Fee is 2.00% for all home purchase loans. The Fee for refinance loans is 0.5%.
2. The fee is submitted with the final package to RD after the loan closing.

REASONABLE CLOSING COSTS & 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, but may be analyzed during RD's review of lender files.

STRICT LIMITATIONS (The important list of no-no's)

1. Qualified related and non-related co-habitants of the dwelling may sign as co-borrowers. Non-occupant co-borrowers are not permitted.
2. No in-ground swimming pool.
3. No refinancing of non-RD guaranteed or direct loan debts, and no equity payout. However, debts remaining from the previous purchase of the building site may be refinanced.
4. No existing manufactured (mobile) homes. Existing modular homes are acceptable if they meet the same requirements as existing "stick-built" homes.

5. No duplexes that are not considered town-homes or condominiums *and* part of a HUD, VA, Fannie Mae or Freddie Mac complex having a homeowners association controlled by the members.
6. No jalousie windows (having narrow plates of glass that crank out).
7. Property must have direct access to a publicly maintained road. This may be in the form of an easement if the property does not border the publicly maintained road.
8. Do not loan in the flood hazard area (Zone A) unless all specific requirements can be met (see page 17, item 2).

SUMMARY OF APPLICANT ELIGIBILITY REQUIREMENTS:

To be eligible for a Guaranteed loan, the applicant(s) must:

1. Be a U.S. citizen, a U.S. non-citizen national, or have qualified alien status.
2. Possess legal capacity to incur the loan and be of legal age. Applicants must be at least 18 years of age to incur debt. A legal guardian may act on behalf of an applicant not having legal capacity (other than a minor), if all other requirements are met and the property can be maintained.
3. Not own adequate housing in the local commuting area.
4. Be able to occupy the home as the primary residence on a permanent basis. Special documentation will be required for full-time students because of their high probability of moving after graduation.
5. Be unable to obtain conventional financing, such as a loan with a 20% down payment. This means having insufficient assets to make a 20% down payment, pay all closing costs, and pay for all out of pocket expenses associated with the purchase, such as moving expenses, utility deposits, window coverings, appliances, lawn maintenance equipment, etc. and leave some reserve. A loan requiring mortgage insurance is not considered "conventional" by this paragraph. Applicants are not required to have a turndown letter for a conventional loan as the lender certifies this on Form 1980-21, Request for Guarantee.
6. Have an Adjusted Annual Household Income that is at or below the Moderate Income Limit for the county where the home is to be purchased. See the Missouri Single Family Housing Guaranteed Lender website www.rurdev.usda.gov/mo/grhpage.htm to link to income guidelines.
7. Have income that is considered adequate and dependable for loan repayment. Adequate repayment ability is expressed as having a PITI ratio (monthly Principal, Interest, Insurance and Taxes divided by repayment income) of equal to or less than 29.00%, and a Total Debt (TD) ratio (all debt payments divided by repayment income) equal to or less than 41.00%. Waivers to these ratio requirements can be granted by RD on a case by case basis, with documentation by the lender.

8. Have acceptable credit history per RD Instruction 1980-D, 1980.345 (d) requirements. An Adverse Credit Waiver may be granted by RD after review on a case by case basis.

Credit scores (the middle of three or lower of two) are carefully considered in granting an Adverse Credit Waiver.

9. No delinquent federal debts, unless a satisfactory repayment plan has been agreed upon with the creditor and there is documentation the payments have been made as agreed for at least 12 months.

Before issuing a Conditional Commitment for Loan Guarantee, RD staff will verify that:

- The lender has provided **reliable** income documentation.
- PITI and TD ratios have been calculated correctly, using actual cost of homeowner's insurance premium and real estate taxes, and including all ongoing financial obligations.
- The lender has complied with creditworthiness guidelines and any Adverse Credit Waiver Request is based on relevant verified data.

DETAILED INFORMATION ON CERTAIN APPLICANT ELIGIBILITY REQUIREMENTS

TO BE ELIGIBLE FOR A GUARANTEED LOAN, THE APPLICANT(S) MUST:

BE A U.S. CITIZEN, A U.S. NON-CITIZEN NATIONAL, OR HAVE QUALIFIED ALIEN STATUS

A U.S. non-citizen national is a person born in American Samoa or Swains Island after the date the U.S. acquired American Samoa (1900) or Swains Island (1925). RD requirements are different than HUD in regard to non-permanent resident aliens in that RD cannot make guaranteed loans to non-permanent resident aliens unless they also have "qualified alien" status.

A "qualified alien" is defined as:

1. An alien lawfully admitted for permanent residence under the Immigration and Nationality Act.
2. An alien who is granted asylum under section 208 of such Act.
3. A refugee who is admitted to the U.S. under section 207 of such Act.
4. An alien who is paroled into the U.S. under section 212(d) (5) of such Act for at least one year.
5. An alien whose deportation is being withheld under section 243(h) of such Act.
6. An alien granted conditional entry per section 203(a) (7) of such Act in effect prior to 4/1/80.
7. An alien who is a Cuban/Haitian Entrant as defined by Section 501(e) of the Refugee Education Assistance Act of 1980.

8. An alien who has been battered or subjected to extreme cruelty under section 431 of the Immigration and Nationality Act (INA).

Contact your local RD office or refer to the Regulation 1980-D Administrative Notices (AN's) for a listing of the documentation required to determine the eligibility of a Qualified Alien.

NOT EXCEED THE MODERATE INCOME HOUSEHOLD ADJUSTED GROSS INCOME

Adjusted household income limits for all states are posted at: <http://eligibility.sc.egov.usda.gov/eligibility/mainServlet>. Just click on the state in the list on the site. You may also navigate to this site through the link provided on the Missouri Single Family Housing Guaranteed Lender Page.

1. **Income of all adults who will be residing in the household and certain other income must be verified.** See RD Instruction 1980-D, 1980.347 and 1980.348 for detailed information for what income to count and the deductions available.

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, and who are not the applicant, spouse, or co-applicant; \$400 annual deduction for an elderly family (see definition in RD Instruction 1980-D). Other deductions are described in RD Instruction 1980-D, 1980.348.

NOT OWN ADEQUATE HOUSING IN THE LOCAL COMMUTING AREA

If the applicant's present home would require two children of different sex to share the same bedroom, it is considered inadequate. Likewise, children may have special needs or requirements for extra space or individual bedrooms. Families have different storage requirements for the space they need. If the applicant(s) have grown out of their existing home or it has any health hazards or mechanical deficiencies, it is considered inadequate. This is a judgment call on a case by case basis and local RD staffs have some flexibility in working with you. The same is true of what is considered the local commuting area. Lenders should document why the existing home is inadequate in a cover letter to Rural Development.

Retaining the existing home as rental property:

Generally, borrowers must sell the old property, meaning at a minimum they have a sales contract with verified closing imminent. If it cannot be sold in a timely manner and will be rented, the following apply:

1. Any present remaining mortgage payment minus rent collected must be counted in the ratios. There must be a standard lease agreement signed by the renter for a period of not less than 12 months.
2. A projected profit and loss (cash basis) statement must be obtained.

3. Only the interest portion of the “old” mortgage payments may be deducted in calculating the net profit of the rental.
4. A projected net cash profit must be included in the total household income to determine Adjusted Household Income.
5. A projected net cash loss cannot be deducted in determining Adjusted Household Income.
6. A projected net cash profit with no history should not be used for repayment calculations due to lack of history to establish dependability. A projected net cash loss should be deducted from repayment income as a sound underwriting practice.
7. The value of any equity in the home to be rented should be determined to calculate the income (for determining Adjusted Household Income) from “net family assets”. [RD Instruction 1980-D, 1980.347(d)(3)]

HAVE ADEQUATE AND DEPENDABLE INCOME

- **Dependable income:** The main concerns are job stability and income reliability. Self-employed applicants with a new business should have 12 months’ operating history and accurate financial statements for review. Applicants who move from another geographic area but remain in the same line of work can normally obtain a loan without a waiting period. Applicants who change to a different line of work normally need at least six months on the job to establish credible work history. For applicants having a history of net loss in a particular enterprise, the average net loss should be deducted from projected repayment income. However, when determining Adjusted Annual Household Income, the average net loss cannot be deducted from total household income.
- **Adequate Repayment Income:**
 - Use only the income of the person(s) signing the promissory note.
 - Use only income anticipated to continue for at least 24 months.
 - May be based on projected income, but will require justification if projected income exceeds historical income.
 - To increase repayment income, non-taxable income may be grossed up 20%.
 - Co-signers will not be considered for repayment income, and will not be considered at all for removing risk layers.
- **Income Documentation**

Income of all adults who will occupy the home must be verified to determine Adjusted Household Income. Income of the applicant and co-applicant must be

verified to determine Repayment Income. Acceptable forms of income verification are:

1. Verification of Employment form (HUD/FHA/VA/Fannie Mae/Freddie Mac) and the most recent paycheck stub OR
2. Paycheck or payroll statements for the most recent 30 days and W-2 tax forms for the previous two years and telephone verification OR
3. Electronic verification and W-2 tax forms for the previous two years and telephone verification OR
4. Third Party Verification service form and the most recent paystub.
5. To verify child support and debt repayment issues, always provide a complete copy of the divorce decree and property settlement agreement.
6. To project self-employment income, refer to the most current RD Instruction 1980-D Administrative Notice.

- **Ratios**

Maximum acceptable ratios are 29.00% PITI, 41.00% Total Debt. If ratios exceed 29.00% or 41.00%, and the lender feels there are compensating factors that justify exceeding the ratios, a Debt Ratio Waiver Request is required. To calculate debt ratios, include any debt obligation which has a remaining repayment period of more than 6 months. Payments for child support and alimony are included as a debt payment. Other debts should be counted if they are recurring, such as recently paid off credit cards that have not been cancelled and show a history of regular use. If there is non-taxable income, remember that you can gross it up 20% for repayment income.

Debt Ratio Waiver Request: The underwriter may request a Waiver using the Debt Ratio Waiver Request/Payment Shock form located in the forms section of this handbook. The Lender should check any compensating factors which are applicable to the applicant(s). Generally, Debt Ratio Waivers for Total Debt will not be approved when the credit score is less than 620 or when Risk Layering is present. However, exceptions can be made in these types of cases IF the underwriter can provide strong supporting documentation sufficient to offset the higher risk involved with these types of cases. Underwriters are encouraged to request a pre-qualification review of the Waiver prior to submitting the complete application, especially if the applicant's credit score is less than 620 or Risk Layering is present.

Common Compensating Factors Include The Applicant(s) Having:

1. Rent for the past 12 months similar to the new PITI and/or history of accumulated savings that when added to the former rent, shows capacity to repay the new PITI.
2. There is only a minimal increase in the borrower's housing expense.
3. A credit score of 660 or higher. The credit score used is the middle of three or the lower of two.

4. The co-applicant has a credit score of 660 or higher.
5. Demonstrated a conservative attitude toward the use of credit and ability to accumulate savings.
6. Stable employment for the past two years, demonstrating dependable income.
7. The applicant has potential for increased earnings, as indicated by job training or education in the applicant's profession.
8. Substantial cash reserves after all closing costs are paid.
9. Compensation or income not reflected in repayment income but indirectly supports the ability to pay the mortgage, such as income from a non-applicant spouse, food stamps and other similar public benefits.
10. Substantial non-taxable income not previously accounted for in the ratios.
11. The home is being purchased as the result of relocation of the primary wage-earner and the secondary wage-earner has an established history of employment, is expected to return to work, and there are reasonable prospects for securing employment in a similar occupation in the new area. The underwriter must address the availability of such possible employment.
12. The TD ratio includes co-signed or ex-spouse debts, and the primary borrower of those debts has demonstrated good repayment history for 12 months and it appears that the GRH applicant will not need to make payments on this debt.
13. A low TD ratio. The low TD ratio, by itself, does not compensate for a high front or PITI ratio. However, when other strong compensating conditions are present, a low TD ratio should be viewed as a positive mitigating factor.

HAVE ACCEPTABLE CREDIT HISTORY THAT MEETS RD REQUIREMENTS

Credit History Verification

Credit reports that meet the standards of Fannie Mae, Freddie Mac, HUD and VA are generally acceptable for the GRH program. These include:

1. Residential Mortgage Credit Report (RMCR).
2. Tri-Merge Credit Report.
3. When there is insufficient traditional credit history, lenders may obtain a Non-Traditional Credit Report (NTCR) or complete their own verification of non-traditional credit sources.

Non-Traditional Sources of Credit include but are not limited to the following:

- A. Rental payments or utility payment records.
- B. Insurance payments, excluding those paid by payroll deduction.

- C. Payments to child care providers.
- D. Regular, periodic payments made to local stores, to schools for education expenses, or to medical providers for uninsured portions of medical bills.

Acceptable Credit History per RD Instruction 1980-D, 1980.345 (d) (1) is:

- A. No more than 1 payment greater than 30 days past due in the past 12 months.
- B. No account converted to collection in the past 12 months.
- C. No judgment outstanding in the past 12 months.
- D. No debt write-off, foreclosure, or bankruptcy discharged within the past 36 months.
- E. No more than 1 rent payment greater than 30 days past due in the past 36 months.
- F. No outstanding collections without satisfactory arrangement for payment, regardless of age.
- G. No outstanding tax lien or delinquent government debt, including student loans.

Credit scores of 660 or above are considered as acceptable credit, unless the applicant (or co-applicant) has a delinquent federal debt.

Adverse Credit Waivers

When adverse credit listed above is present, an Adverse Credit Waiver is always required when the credit score is less than 660. Credit scores of 660 or above are considered as acceptable credit, unless the applicant has any delinquent federal debt.

Underwriters may consider and document mitigating circumstances on the Adverse Credit Waiver form to establish the applicant's intent for good credit when:

1. The circumstances: (1) were of a temporary nature **AND** (2) were beyond the applicant's control **AND** (3) have been removed or resolved. All three factors must apply to the applicant.
2. The delinquency or collection account was the result of a justifiable dispute because of defective goods or services.

Adverse Credit Waivers and Risk Layering

Generally, Adverse Credit Waivers will not be approved when the applicant's credit score is below 620 and there is Risk Layering present. However, exceptions can be made IF the underwriter can provide strong supporting documentation substantiating

the waiver request. The Lender may use the Debt Ratio Waiver Request/Payment Shock form to document applicable compensating factors or they may be listed on the FNMA 1008. Underwriters are encouraged to request a pre-qualification review of the Waiver prior to submitting the complete application, especially if the applicant's credit score is less than 620 or Risk Layering is present.

Collection Accounts

Once the decision is made to recommend approval of the loan regardless of an outstanding collection account(s), there is no procedural requirement to have the collection account(s) satisfied. The Lender must document the mitigating circumstances on the Adverse Credit Waiver form, but does not have to require them to be paid in full in all cases. In some cases, requiring the payoff of collection accounts as a loan condition might place additional financial stress on an applicant who likely has little or no cash reserve. Monthly payments from Collection Account Repayment Agreements will be accounted for in the repayment ratios. Lenders must assure that leaving any unpaid collection balances will not affect their ability to obtain a first mortgage position on the real estate and allow marketable title.

Risk Layering

A risk layer is defined as anything which increases the risk of loan default. When an applicant has two or more of these risk layers combined there is Risk Layering. The presence of Risk Layering is a negative factor which greatly increases the risk of default.

Common Risk Layers are:

1. Payment Shock = 100% or higher.
2. PITI Ratio exceeds 29.00% and/or Total Debt ratio exceeds 41.00%.
3. There is no past rental history.
4. There is no typical credit history. Lenders may document alternative sources of credit.
5. Adverse Credit history exists, even with an Adverse Credit Waiver.
6. The applicant(s) has a relatively unstable employment history or unstable income history.

Payment Shock

Payment shock compares the proposed loan payment to the applicant's current housing expense and is expressed as a percentage. Payment Shock is a Risk Layer whenever it equals or exceeds 100% OR when there is no past rental history.

Payment Shock is calculated as follows:

New PITI: \$ _____ divided by former rent: \$ _____] - 1 X 100 = _____ %

Lenders must document the Payment Shock percentage on each case on the FNMA 1008. If Payment Shock = 100% or higher, Lenders must use the Debt Ratio Waiver Request/Payment Shock form to calculate the percentage and indicate compensating factors that exist using that form.

PROPERTY ELIGIBILITY

1. The property must be located in a geographic area eligible for RD assistance. Generally, eligible areas include towns with less than 20,000 in population and rural sites. Maps of ineligible areas are available at Local RD Offices and the RD State Office. A web tool is available so that you can input the property address and obtain this determination. See the “Income & Property Eligibility Site” link on the Missouri Single Family Housing Guaranteed Lender website.
2. The property cannot be located in a 100-year flood hazard area (Zone A), unless the first floor is above the 100-year floodplain elevation at the property site as determined by survey. Flood insurance is still required. If applicants are interested in homes located in FEMA-mapped flood hazard areas, they will need to provide an elevation certification to determine if the first floor is above the 100-year floodplain. If the certification indicates that the first floor is below the 100-year flood elevation, RD cannot guarantee the loan, no exceptions. We discourage the purchase of houses located in flood hazard areas, and advise lenders to counsel applicants to shop for houses located outside of a flood zone. Also, Rural Development is strictly prohibited from guaranteeing loans in the 100-year floodplain that have not been mapped by FEMA, where flood insurance is not available.
3. On rural sites, the tract cannot contain significant agricultural buildings, livestock or grain storage facilities that have substantial value and the potential to produce income.
4. For new construction, if the house is not on public water and sewer, both the well and septic systems must meet Missouri Department of Health requirements. We require both a satisfactory septic inspection and a satisfactory well inspection completed by an inspector who is licensed by the Missouri Department of Health. A safe water test certification is also required. For an existing home, we require a safe water test, and the septic system must have a satisfactory inspection by the lender’s inspector. If the lender’s inspector finds possible problems with the septic system, then an inspection by the Missouri Department of Health licensed inspector will be required to determine required repairs and the final inspection after repairs.
5. Financing of **existing** manufactured homes (formerly known as mobile homes) is prohibited, no exceptions. Financing of **new** manufactured homes

is possible when the purchase is done through a dealer-contractor approved by Rural Development.

6. Financing of existing modular homes is permitted if the home meets all requirements for existing stick-built homes. For new construction, loans for modular homes are generally processed the same as for stick-built homes.
7. Generally, the value of the site must not exceed 30 percent of the total value of the property. When the value of the site is typical for the area, as evidenced by the appraisal, and the site cannot be subdivided into two or more sites, the 30 percent limitation may be exceeded.

EXISTING HOMES

1. Lenders should be wary of properties that have structural deficiencies, especially in foundations and basements. Proposed repairs for structural deficiencies will be scrutinized carefully.
2. Existing dwellings must be structurally sound, functionally adequate, and in good repair. They must meet the requirements of RD Instruction 1980-D, and HUD Handbooks 4905.1 and 4150.2. Although HUD requirements generally apply, some RD requirements are more stringent. For example, we do not typically finance homes with flat roofs, although flat roofs over non-living areas, such as a porch, might be acceptable.
3. Inspections shall be done by a party the Lender determines to be qualified. When the appraisal is prepared in accordance with HUD Handbooks 4905.1 and 4150.2 by an appraiser designated on the FHA register, the appraisal constitutes acceptable documentation to comply with existing dwelling inspections made in accordance with RD Instruction 1980-D, Section 1980.341(b)(1)(i). The HUD roster appraiser should certify that the requirements of HUD Handbooks 4905.1 and 4150.2 have been met. If a HUD-approved Appraiser does not complete the appraisal, then an inspection will need to be completed using Missouri RH Guide 11, *Existing Home Component Systems Certification*. The sale agreement shall identify which party (i.e., purchaser or seller) is responsible to obtain and pay for required inspections and certifications.
4. The dwelling and site must meet the guidelines of RD Instruction 1980-D and HUD Handbooks 4905.1 and 4150.2. But be aware that there are some RD requirements that are stricter than HUD, i.e., no flat roofs. Crawl spaces and attics must be accessible and ventilated, and must have 6 mil poly vapor barrier lapped 6 inches at the seams. Smoke detectors are required, and a pressure release valve with drain tube is required on the hot water heater. Floor furnaces are not regarded as suitable for the Guaranteed program because of safety reasons. Other types of heating may be acceptable, but we prefer forced-air furnaces.
5. Use caution in accepting an older dwelling. An existing dwelling must be cost effective to the applicant, meaning reasonable costs of utilities and

maintenance for the area. Keep this in mind for applicants who have no cash reserves and no previous home ownership experience. Applicants with significant payment shock projected will likely not have funds for unexpected repairs or unexpected high utility bills.

6. Condominium projects and their units are usually served by homeowners associations. A dwelling served by a homeowners association (HOA) may be accepted when the project has been approved or accepted by HUD, VA, Fannie Mae, or Freddie Mac.
7. Private roads must have direct access to a publicly maintained road. This may be in the form of an easement out to the publicly maintained road.
8. Special clearance of all properties with an actual age of 50 years or greater is required. Notify the local Rural Development office as soon as you are aware that the home is 50 years old so that the local office can visit the property to determine suitability for the guaranteed loan program and to determine if the loan process will affect the historical value of the property.

If repairs to the property are required for the loan to be approved and they will be paid for by the buyer, then Rural Development must obtain concurrence from the State Historical Preservation Officer (SHPO). This process can take up to 30 days. If the seller is willing to do the repairs prior to loan closing, this review process is not required.

Inspections for Existing Homes

1. For all existing homes more than 12 months old or previously occupied, the property must meet the requirements of Rural Development for existing construction. If the appraiser/inspector calls for additional inspections such as a roof or electrical system, that inspection must be completed. Inspections of roofs, electrical systems and HVAC may be performed by a licensed whole house inspector or qualified contractor.
2. 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.
3. The Lender, applicant, and seller must work out the plan for completing the repairs. RD will generally not be involved in those details. Any amount to be paid from loan funds should be included in the loan request prior to underwriting and submission of the Guaranteed Application package to RD. The final inspection must be completed by a contractor other than the one who completes the repairs.
4. While RD is NOT looking for cosmetic problems, the appraiser/inspector may recommend painting and other minor repairs. The appraiser will need to determine which of the optional repairs the buyer wishes to have completed in order to include them in the "as improved" value.

IMPORTANT: Do the termite inspection as part of the initial inspection process. If the initial termite report indicates existing damage, you may use a qualified, experienced contractor to inspect the extent of damage and whether structural repairs are needed. The cost of destroying termites and repairing structural termite or wood rot damage must be considered in the loan process.

NEW CONSTRUCTION

- At a minimum, the dwelling must be in compliance with the 2000 International Residential Code for One and Two-Family Dwellings, the 1992 Model Energy Code, and the 1999 National Electrical Code. A standard one year builder's warranty is required.
- Lenders are only required to submit minimal new construction documentation, described on the "Guaranteed Rural Housing Loan Checklist", to Rural Development. However, lenders must retain copies of the building permits, construction inspections, occupancy permits, plan certifications, and construction warranties described in this section in their borrower's loan file. Refer to the current RD Administrative Notice (AN) pertaining to new construction documentation.
- Rural Development can guarantee construction/permanent loans. The guarantee is not issued until the home has been completed and the closing package (including the guarantee fee) has been received by Rural Development.
- Full documentation – Construction inspections and building plan certifications 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. If the home is located in a community that has adopted one of the model building codes and has trained officials who review plans and inspect construction for compliance as a requirement for issuing a building permit or occupancy permit, a Certificate of Occupancy or Building Permit issued by the local jurisdiction is acceptable instead of Certified Plans and Specs.
- Lenders must obtain copies of three construction inspections at the following intervals:
 - Foundation/Footing Inspection (prior to back filling)
 - Rough-in Inspection (shell is enclosed, walls are open, and mechanical systems are in place)
 - Final Occupancy Inspection (verify that any exceptions noted have been completed prior to submitting your closing package to Rural Development)
- Builders must supply at least a one-year builder's warranty.

OR

- 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. In this case, a final inspection would still be required.

- 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:
 - Form RD 400-1, Equal Opportunity Agreement
 - Form RD 400-6, Compliance Statement
 - Form RD 1924-25, Plan Certification
 - Form FmHA 1924-6, Construction Contract, or include the “Equal Opportunity Clause” (EOC) addendum as part of each contract or subcontract over \$10,000.

MODULAR HOMES

- Modular homes must be designed and constructed to meet all of the same requirements 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.

MANUFACTURED HOMES

- Existing manufactured (HUD code) homes cannot be financed unless they are presently being 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 International Residential Code (IRC) 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 RD-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.
- The home must be permanently installed on the site with all running gear and towing equipment removed.
- All foundation types must have a frost protected perimeter. Foundation plans must be site specific and approved by a Missouri state certified engineer.
- Acceptable types of foundations for manufactured homes include full basements, crawl spaces, and concrete slabs. All foundation perimeters must be frost protected and enclosed with a permanent building material such as concrete, cement blocks, or treated wood. In no cases will metal or vinyl skirting be accepted. See Missouri RH Guide 7A, *Description of Materials, Single Family Housing – Manufactured Homes*.

PACKAGING THE LOAN - GETTING STARTED

1. Educate your loan officers, processors, underwriters, and closing department. Request training from your nearest local RD office or the RD State office.
2. Thoroughly review this material, RD-Instruction1980-D, and Administrative Notices (AN's).
3. Review and utilize the RD-MO 1980-1, “*GRH Loan Checklist*” available on the lender website.
4. Become familiar with the forms.

RESERVATION OF FUNDS (ROF)

The originating lender/broker branch should request the ROF when it appears the loan will likely clear the underwriting process. This assures all parties that funding is available. It should be done after a preliminary eligibility determination is done and after the purchase contract is signed, but before the loan is underwritten. Fax the ROF form to the RD office serving the county where the property is located.

HOME BUYER EDUCATION

Home buyer education is highly recommended for first-time homebuyers. First time buyers need to be made aware of the many responsibilities of home ownership,

including budgeting for future or unexpected maintenance costs, increasing taxes and insurance, etc.

APPRAISAL

The appraisal you submit to RD must be completed by a Missouri Licensed or Certified Appraiser and must contain:

1. Clear, legible photos, preferably in color.
2. Flood Map (for all FEMA-mapped areas) with subject location noted.
3. If repairs are involved and the loan is based on the “As Improved” value, a repair list and estimate or bid is required.

Appraisals should be done on an “as improved” basis to reflect the value of the property meeting Rural Development 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” based on a nationally recognized cost handbook, such as the Marshall & Swift 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 with conventional underwriting and USPAP guidelines.

Before ordering the appraisal, consider any major repairs or improvements that may be required or desired by the applicant. If repairs are needed or planned, provide cost estimates or bids to the appraiser so the property is appraised on the “**as improved**” basis. In some cases you won’t know what repairs are required until the appraiser inspects the property.

If the original Conditional Commitment was for less than 100% of appraised value and the applicant can meet repayment requirements, you can request and receive a new Conditional Commitment prior to closing, if additional loan funds are needed. But this process takes several days and tends to create frustration if you are up against a closing deadline. *It is best to determine the actual amount needed prior to submitting the Request for Single Family Housing Loan Guarantee.*

ESCROW

Escrowing of taxes and insurance is mandatory; no exceptions.

LOAN CLOSING

1. Do NOT close the loan until both the underwriter AND RD conditions are met.
2. The loan amount **MUST NOT** exceed the amount shown on the RD Conditional Commitment for Single Family Housing Loan Guarantee. As long as the security value remains unchanged, you may loan less than the amount of the Conditional Commitment, but not more. An increase in the loan amount requires a revised Guarantee Request and a new Conditional Commitment.
3. Make sure the guarantee fee is correct.
4. Make sure the borrower(s) still have repayment ability for the loan, using the actual real estate tax amount, actual homeowner's insurance premium, and any changes in income that have occurred since the initial commitment was issued.

A Big No-No: closing a loan amount higher than the Conditional Commitment (CC) amount. It is IMPERATIVE that your closing department makes sure that the loan amount does not exceed the amount shown on the RD Conditional Commitment. *RD will not be able to increase the Conditional Commitment amount once you close the loan. The Lender will have to adjust the principal to obtain the Guarantee.*

LENDER REVIEWS

Lender files are subject to review by RD for verification that all required documentation was obtained and that prudent underwriting procedures are being followed. Lenders are usually reviewed at least every two years, but are also subject to unscheduled reviews due to unusually high loan delinquencies, loan losses, or failure to submit required reports.

HELPFUL TIPS

1. Use the *Missouri Guaranteed Rural Housing Loan Checklist*, Form RD-MO 1980-1, located on the Missouri Single Family Housing Guaranteed Lender website. It will help you insure that a complete application is submitted to RD. Based on office reviews, the following areas were the most frequently missed or neglected by lenders, resulting in an incomplete application and causing delays in processing:
 - a. Form 1980-21, *Request for Single Family Housing Loan Guarantee*, is not completed thoroughly or is not signed by both the applicant(s) and lender. You should submit the **original signed** form to our office.
 - b. Appraisals that did not contain color photos, flood map (for mapped areas), or repair estimates for major repairs.

- c. Not identifying Adverse Credit per RD Instruction 1980.345(d) (1), which requires submission of the Adverse Credit Waiver when the credit score is less than 660.
 - d. Where multiple sources of income are involved, not providing calculations to show how Adjusted Annual Household Income was determined.
 - e. Not identifying Payment Shock and/or documenting compensating factors. We encourage Lenders to use the new Debt Ratio Waiver/Payment Shock form in this handbook.
2. If the loan amount cannot be estimated accurately, estimate on the high side or request 100% of the appraised value. Remember that the guarantee fee is based on the total amount loaned. So if the fee is to be financed in the loan, you need to request a guarantee for the total to be loaned including the fee. RD can provide an Excel spreadsheet to assist you in calculating total loan amount when the fee is to be financed.

FORMS

The most current form revisions are available on the Missouri Single Family Housing Guaranteed Lender website: <http://www.rurdev.usda.gov/mo/grhpage.htm>. Most are available in a fillable format. Sample forms are included at the end of this handbook.

SELLING GUARANTEED LOANS

It is preferred that Guaranteed loans be sold only to other RD Approved Lenders, or directly to Fannie Mae or Freddie Mac. Loans are sold with servicing retained or servicing released. The most profitable way to utilize the GRH program has generally been to sell with servicing retained. However, some Lenders will only buy Guaranteed loans with servicing released. For a complete list of Approved Lenders, please contact your local Rural Development office.