

RD AN No. 4470 1980-D)
August 18, 2009

TO: All State Directors
Rural Development

ATTENTION: Rural Housing Program Directors
Guaranteed Loan Coordinators
Area Directors and Area Specialists

FROM: Tammye Treviño (*Signed by Tammye Trevino*)
Administrator
Housing and Community Facilities Programs

SUBJECT: Single Family Housing Guaranteed Loan Program
Underwriting and Closing Loans - Documentation Matrix

PURPOSE/INTENDED OUTCOME:

The purpose of this Administrative Notice (AN) is to provide information on the verification documentation and credit report requirements for loans evaluated and closed by approved Single Family Housing Guaranteed Loan Program (SFHGLP) lenders. This guidance applies to manually underwritten loans and loans entered in the Guaranteed Underwriting System (GUS).

COMPARISON WITH PREVIOUS AN:

No previous AN has been published on this subject.

EXPIRATION DATE:
July 31, 2010

FILING INSTRUCTIONS:
Preceding RD Instruction 1980-D

BACKGROUND:

The application package must contain sufficient information for the approved lender’s underwriter to reach an informed decision about whether to approve a loan for the SFHGLP. The documents in the application package must be legible and must not have any alterations, erasures, or “white-outs.” The application should include all information needed to verify, clarify or substantiate the applicant’s circumstances related to the request for extension of credit. RD Instruction 1980-D, §1980.353(e)(1) indicates income documents are valid for 120 days (180 days for proposed new construction) and must be valid at issuance of Form RD 1980-18. Remaining credit documents will be treated the same old in accordance with recognized mortgage industry standards. When the age of the documents is greater, the lender must obtain updated written verifications.

IMPLEMENTATION RESPONSIBILITIES:

Lenders must obtain sufficient information to enable them to verify an applicant’s creditworthiness and ability to repay the loan requested. To analyze whether a particular applicant is eligible for SFHGLP financing, an approved lender will obtain information regarding the applicant’s income, assets, and liabilities and compare the information to the proposed housing payment to determine repayment ability for the requested loan. To determine creditworthiness, a lender will verify an applicant’s past and present employment earnings, credit ratings, and consider assets and payment history for past mortgage payments and/or previous rent. Regardless of whether the mortgage loan application is manually underwritten, or underwritten with the assistance of GUS, documentation supporting the requested loan must be maintained in the lender’s permanent loan file.

Attached to this AN is an origination and post-closing documentation matrix. Each matrix is to be utilized as a reference for documenting SFHGLP loans. For complete documentation information and specific program eligibility requirements, refer to RD Instruction 1980-D, supplemented by published ANs.

Questions regarding this AN should be directed to:

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Attachment

Documentation Matrix - Origination



Use of the following information is for reference in documenting SFHGLP files. For complete information, refer to RD Instruction 1980-D, supplemented by applicable Administrative Notices (AN). <http://www.rurdev.usda.gov/regs/>

Underwriting Documentation

GUS Accept	Manual UW - Submit to RD for Commitment [Includes GUS Refer & Refer w/Caution]	Documentation - Lenders' Case File	Topic	Documentation
√*		√	GUS Underwriting Findings Report	Lenders who utilize GUS to assist with underwriting must retain the last "final submission" GUS Underwriting Findings Report.
	√	√	Underwriting Analysis: Uniform Underwriting Transmittal (Form FNMA 1008/FHMLC 1077) or similar form	Form 1008 or equivalent is required for each manually underwritten mortgage. The 1008 will summarize the loan characteristics used in the risk assessment and final underwriting decision. Loans must be underwritten by an approved lender. The signature of the underwriter must be evident on the loan underwriting analysis prior to issuance of a Conditional Commitment.
	√	√	Credit Worthiness/Derogatory Credit: Documentation of Credit Waiver	A lender's permanent case file must contain a thorough rationalization for approving a loan. Adequate offsets (compensating factors) must be present for risks identified. In loan files that do not qualify for streamlined documentation, the presence of adverse credit and waivers considered by the lender in the underwriting decision must be fully documented on the underwriting analysis. A properly documented credit waiver from the approved lender must address how the adverse credit was temporary in nature and beyond the applicant's control and confirm the derogatory credit has been removed.

*Agency will view report from GUS menu.

GUS Accept	Manual UW - Submit to RD for Commitment [Includes GUS Refer & Refer w/Cautions]	Documentation - Lenders' Case File	Topic	Documentation
	√	√	Credit Worthiness/Derogatory Credit: Documentation of Credit Waiver	A lender's permanent case file must contain a thorough rationalization for approving a loan. Adequate offsets (compensating factors) must be present for risks identified. In loan files that do not qualify for streamlined documentation, the presence of adverse credit and waivers considered by the lender in the underwriting decision must be fully documented on the underwriting analysis. A properly documented credit waiver from the approved lender must address how the adverse credit was temporary in nature and beyond the applicant's control and confirm the derogatory credit has been removed.
	√	√	Debt to Income Ratio Waivers	A lender may request Rural Development concurrence to utilize a higher ratio when there are strong documented compensating factors that justify using the higher ratio. The preferred method of documenting a lender's request for ratio waiver and compensating factors utilized is the underwriting analysis. Written concurrence of ratio waivers approved by Rural Development is required and must be retained in the lender's permanent case file.
	√	√	Temporary Interest Rate Buydowns	Designed to reduce the borrower's monthly mortgage payment during the early years of repayment. All loan files must qualify at the full note rate. Buydown funds may come from the seller, lender or third party. Buydown funds may not come from borrower. The initial interest rate is temporarily reduced no more than two percent below the note rate and increased by no more than one percent annually for no more than two years. A written copy of the escrow agreement signed by the borrower and the provider of funds must be obtained.

GUS Accept	Manual UW - Submit to RD for Commitment [Includes GUS Refer & Refer w/Caution]	Documentation - Lenders' Case File	Topic	Documentation
	√	√	Payment Shock	Document compensating factors considered if payment shock is in excess of 100% or higher, or the applicant has no previous rent or housing expenses when combined with the presence of additional layers of risk such as adverse credit waiver, temporary buydowns and/or debt ratio waivers.
√	√	√	Documentation of Qualified Alien Status	Qualified aliens lawfully residing in the United States are eligible for loans on the same terms as US citizens.
√	√	√	Form 1980-21, "Request for Single Family Housing Loan Guarantee"	The Request for Single Family Housing Loan Guarantee must be completed and executed by the approved lender (page 2), or their authorized representative and all borrowers who will be a party to the note. Multiple forms may be utilized.
	√	√	Credit Alert and Interactive Voice System (CAIVRS)	Document the confirmation CAIVRS # obtained on the front page of Form 1980-21, at item 13.
	√	√	Uniform Residential Loan Application (Form FNMA 1003/FHMLC)	A borrower's loan application must be documented on a Form 1003. A complete, dated, signed version confirming the borrower's signature and lender's interview must be included in the mortgage file.

Credit Documentation

GUS Accept	Manual UW - Submit to RD for Commitment [Includes GUS Refer & Refer w/Caution]	Documentation - Lenders' Case File	Topic	Documentation
√	√	√	Credit Report	Obtain credit data for all borrowers from infile(s) or merged/joint merged, RMCR or NTMCR. RD Instruction 1980-D, section 1980.353(e)(1) provides the expiration of verified documents. In accordance with recognized industry standard and, section 1980.353(e)(1), the credit report is valid for 120 days (180 days for proposed new construction). Credit Reports for GUS transactions will be included when submitted with the final submission from the approved lender.
	√*	√	Verification of Housing Debt/Rental	* Third-party documentation to verify the payment amount and history is required if the credit report does not contain a required monthly payment for those files that do not qualify for streamlined documentation.
	√	√	Monthly Debt Payment	Include payments on debts with more than six months (6) repayment remaining; including open collection accounts and debts that are in a period of deferment or forbearance.
		√	Collection Accounts	Applicants are expected to demonstrate a reasonable ability and willingness to meet obligations as they come due. It is the lender's responsibility to determine if there are mitigating circumstances concerning an applicant's credit history. The lender is responsible to determine what collection accounts, if any, should be paid in full by the applicant prior to or at closing, based upon the strength of credit profile. Evidence of meaningful financial reserves and if the account(s) have a potential to affect the lien position or diminish the borrower's equity must be considered. The lender's decision must be fully documented on the underwriting analysis.
	√	√	Direct Verification of Other Debts	If the credit report does not contain verification of payment history, third party verification is required. Example: When application indicates alimony, child support or separate maintenance fee, obtain selected pages from the applicable agreement to evidence the required monthly payment and duration of debt. Verify most recent 12 months' payment history.

Employment/Income Documentation

GUS Accept	Manual UW - Submit to RD for Commitment [Includes GUS Refer & Refer. w/Caution]	Documentation - Lenders' Case File	Topic	Documentation
		√	Calculation of Repayment Income	Calculate stable monthly income from verifiable sources that are expected to continue. Refer to Section 1980.345(b) of RD Instruction 1980-D. Verification of income is valid for 120 days (180 days for proposed new construction). Standard verification forms such as original verifications of employment (VOE), verification of deposit (VOD) and mortgage or rental verification forms must be sent directly from the originator to the borrower's employer, depository, creditor or landlord and upon completion, returned directly from the entity to the originator. The original documents must not contain any alterations, erasures, correction fluid or correction tape. Pay stubs or salary vouchers must identify the borrower as the employee and show the time period covered and both the current period earnings and year-to date earnings.
	√	√	Verification of Income/Employed Borrower	Proper documentation must be obtained to support all stable income for each borrower which will identify the dollar amount and stability of the income. Documentation of an employed borrower must be: (1) Verification of Employment (Form RD 1910-5 or equivalent) AND the most recent paycheck stub; OR (2) Paycheck stubs or payroll earnings statements covering the most recent 30-day period, AND W-2 forms for the previous 2 tax years AND a telephone verification of the applicant's current employment OR (3) Electronic verification or other computer-generated documents accessed and printed from a intranet or internet, AND W-2 tax forms for the previous 2 years, AND a telephone verification of the applicant's current employment.

GUS Accept	Manual UW - Submit to RD for Commitment [Includes GUS Refer & Refer w/Caution]	Documentation - Lenders' Case File	Topic	Documentation
	√	√	Verification of Income/Self-Employed Borrower	Obtain signed individual federal income tax returns for the most recent two years and year-to-date profit and loss balance statements. Obtain complete signed business tax returns for the most recent two years. For quality assurance purposes, the lender should require the self-employed applicant to execute IRS 4506, "Request for Copy of Tax Form," or IRS Form 8821, "Tax Information Authorization," at the time of application and send it to the IRS for processing. The lender does not have to receive the information back from the IRS prior to closing the loan. The lender is encouraged to utilize Fannie Mae Form 1084, "Cash Flow Analysis" and Fannie Mae Form 1088, "Comparative Income Analysis" to document a trend analysis for the borrower's business.
	√	√	Commission Income	Documentation to support commission income as a stable source of repayment income includes: Verbal VOE, AND most recent YTD paystub covering one month AND W-2's covering the most recent 2 tax years, AND signed individual federal income tax returns for the most recent 2 tax years OR Written VOE covering 2 years, AND signed individual federal income tax returns for the most recent 2 tax years.
	√	√	Part-Time and Second Jobs	Establish a 2-year history verified through a VOE or 2 years of previous tax returns (individual and business) signed with all schedules.
	√	√	Seasonal Income	Establish a 2-year history verified through a VOE to confirm likelihood of returning to work and 2 years of previous tax returns (individual and business) signed with all schedules.
	√	√	Rental Income	Borrowers who own a dwelling must meet Section 1980.346(a) of RD Instruction 1980-D. Newly signed leases that meet requirements: Document with a lease agreement signed by both parties along with proof that he security deposit and the first months rent have been paid. Historically leased properties: Document utilizing federal tax returns, IRS Form 1040, Schedule E.

GUS Accept	Manual UW - Submit to RD for Commitment [Includes GUS Refer & Refer w/Caution]	Documentation - Lenders' Case File	Topic	Documentation
	√	√	Alimony, Child Support or Separate Maintenance	Obtain selected pages from the applicable agreement evidencing 3 year's continuance and proof of receipt for most recent 3 months from one of the following: Court payment records OR Cancelled checks OR Bank statements clearing showing the deposit for the subject income.
	√	√	Non-employed Income (Other)	Obtain written verification of the income (such as award letter, pension statement IRS 1099, or other appropriate documents OR Verification through individual federal income tax returns for the most recent year. For quality assurance purposes, require the applicant to execute IRS 4506 or 8821 at application and send it to the IRS for processing, or by closing. NOTE: Tax-exempt income that is established as continuing into the foreseeable future may be grossed up by the attributable federal tax savings and may be used for use with repayment ratios. Refer to section 1980.345(c)(2)(ii) of RD Instruction 1980-D.
	√	√	Gaps in employment	Proper documentation must be obtained to support all stable income for each borrower which will identify the dollar amount and stability of the income. Document gaps in employment as they relate to the stability of income in the foreseeable future.
	√	√	Non-applicant Income (not an obligor to note)	Non-applicant's income who will occupy the proposed property must be verified for program eligibility of household income. Obtain the most recent earnings statement or pay-stub with YTD earnings

Adjustments to Income Documentation

GUS Accept	Manual UW - Submit to RD for Commitment [Includes GUS Refer & Refer w/Caution]	Documentation - Lenders' Case File	Topic	Documentation
	√	√	Child Care	A deduction for the care of minors 12 years of age or under, to the extent necessary to enable a borrower to be gainfully employed or to further his/her education. Payment of care cannot exceed the income earned, if caused by employment and cannot be made to persons whom the borrower is entitled to claim as dependents for income tax purposes. Documentation can be in the form of tax returns, third party verifications or cancelled checks or money orders.
	√	√	Medical Expenses	Medical expenses for any elderly family (as defined in 1980.302(a) of RD Instruction 1980-D) include expenses anticipated during the ensuing 12 months that are not covered by insurance. A deduction of which the aggregate amount of expenses exceeds 3 percent of gross annual income is allowed. Documentation can be receipts, copies of billing statements, invoices or other written documentation supporting the expenses.

Asset Documentation

GUS Accept	Manual UW - Submit to RD for Commitment [Includes GUS Refer & Refer w/Caution]	Documentation - Lenders' Case File	Topic	Documentation
	√	√	Cash Reserves	All cash reserves in GUS must be verified. Cash reserves utilized as compensating factors must be verified.
	√	√	Funds on Deposit/Net Family Assets >\$5,000	Verification of income from net family assets greater than \$5,000 as defined at section 1980.302(a) of RD Instruction 1980-D. The greater of actual income derived from all net family assets or a percentage of the value of such assets based on the current passbook savings rate. Documentation to coincide with type of asset. (i.e. if funds on deposit - obtain most recent bank statement)
	√	√	Retirement Accounts	Obtain most recent statement and conditions under which funds may be withdrawn or borrowed. Retirement funds may be utilized as cash reserves and/or a compensating factor in accordance with agency instructions. Calculate at 60% of the vested account balance to allow for withdrawal penalties.
	√	√	Gifts	Document through an executed gift donor letter and establish the gift does not have to be repaid. If the gift funds are not verified in the borrower's account at time of application, obtain proof of transfer from the donor to the borrower. Gifts should not contribute to cash reserves in GUS transactions or be considered a compensating factor.
	√	√	Sale of Real Property	Obtain executed HUD-1 or equivalent closing statement.

Property Documentation

GUS Accept	Manual UW - Submit to RD for Commitment [Includes GUS Refer & Refer. w/Caution]	Documentation - Lenders' Case File	Topic	Documentation
	√	√	Agreement of Sale, Sales Contract, Purchase and Sales Agreement	A sales contract and any amendments or other agreements and certifications.
√	√	√	Appraisal Report (Form FNMA 1004/FHMLC 70)	The lender must ensure that the collateral is eligible for guarantee by the SFHGLP. The appraisal forms that must be used for loan origination purposes are: Uniform Residential Appraisal Report (FNMA Form 1004/FHLMC Form 70) for one unit single family dwellings OR Manufactured Home Appraisal Report and addendum (FNMA Form 1073/FHLMC Form 70B) for all manufactured homes OR Individual Condominium Unit Appraisal Report (FNMA Form 1073/FHLMC Form 465) for all individual condominium units. Licensed or certified appraisers must complete the report.
		√	Existing Property - Inspection Report	Properties must meet HUD Handbooks 4905.1 and 4150.2. The lender may utilize a FHA roster appraiser who can certify the handbooks have been met OR lenders may determine that a non-FHA roster appraiser is qualified to perform the home inspection (as long as the lender is assured the non-FHA roster appraiser is thoroughly familiar with HUD handbooks) who can certify the handbooks have been met OR a lender may utilize a licensed or certified appraiser (non-FHA roster appraiser who is unfamiliar with the HUD handbooks). In the latter case, a separate home inspection report prepared by a home inspector deemed qualified by the lender should be obtained. When the appraiser can certify HUD handbooks have been met, they may document on page 3 of the appraisal form in the "comment" section or make their certification in an addendum to the appraisal, or utilize an optional Rural Development certification form.

GUS Accept	Manual UW - Submit to RD for Commitment [Includes GUS Refer & Refer w/Caution]	Documentation - Lenders' Case File	Topic	Documentation
		√	New Construction - Certification of Applicable Development Standards	Proposed new construction requires certifications regarding the plans, drawings and specifications. Certifications must be from a qualified individual or organization that the reviewed documents comply with applicable development standards. Lenders may elect to utilize Form RD 1924-25, Plan Certification, or a separate form or document that conveys the necessary information OR obtain a Certification of Occupancy issued by a local jurisdiction (provided the State Director determines the local communities or jurisdictions qualify to use this form of acceptable evidence) OR a Building Permit issued by a local jurisdiction (provided the State Director determines the local communities or jurisdictions qualify to use this form of acceptable evidence).
		√	New Construction - Evidence of Construction Inspections	The lender must obtain: (1) Certificate of Occupancy issued by a local jurisdiction that performs at least 3 construction phase inspections AND a 1-year builders warranty OR (2) Three construction inspections performed when footings and foundation are ready to be poured and prior to back-filling; when shell is complete, but plumbing, electrical and mechanical work is still exposed; and at final inspection of completed work prior to occupancy AND a 1 year builder warranty OR (3) Final inspection and a 10-year insured builder warranty plan acceptable to Rural Development.
		√	New Construction - Thermal Requirements	Document new construction meets building code for which home inspected. Acceptable documentation can be represented on a plan certification, issuance of a building permit or by individual certification by the builder.
	√	√	Condominium Requirements	The project must be a HUD, VA, FNMA or FHLMC approved project. Lenders may "self certify" or warrant that the condominium meets the minimum requirements of FNMA, FHLMC or HUD. Lenders can certify that they reviewed condominium documentation and have retained documentation in their case file. Documentation consists of a condominium questionnaire AND the condominium's master hazard insurance policy. Lenders may certify that the condominium meets the requirements of HUD, FNMA or FHLMC on the underwriting and transmittal summary (FNMA 1008/FHLMC 1077) or elect to utilize Rural Development's Condominium Certification Form.

GUS Accept	Manual UW - Submit to RD for Commitment [Includes GUS Refer & Refer w/Caution]	Documentation - Lenders' Case File	Topic	Documentation
		√	Manufactured Home Requirements	New units purchased through an approved dealer-contractor. Refer to the Rural Development guaranteed loan division of each state for a current list of approved dealer-contractors. A site must be financed in conjunction with the unit. See "New Construction" for applicable documentation. Existing properties under limited conditions, if financed or guaranteed by Rural Development are eligible. See section 1980.313(i)(2)(i) of RD Instruction 1980-D for additional guidance.
		√	Individual Water Supply System Inspection	If the property is served by an individual water supply system, the local health authority or state certified laboratory must perform a water quality analysis. The water quality analysis must meet state and local standards. Evidence the water quality analysis meets the standards must be documented.
		√	Individual Septic System Inspection - Existing Property	If the property is served by an individual septic system, the system must be free of observable evidence of system failure. A FHA roster, a government health authority, a licensed septic system professional, or a qualified home inspector may perform the septic system evaluation. The separation distances between a well and septic tank, the drain field, and the property line should comply with HUD guidelines OR state well codes. No separate inspection is required when the appraisal has been performed by a FHA roster appraiser, and no observable system failure is evident and the FHA roster appraiser indicates the property meets the requirements of HUD Handbooks 4150.2 and 4905.1.
√	√	√	FEMA Form 81-93, Standard Flood Hazard Determination	Requirements to complete FEMA Form 81-93, "Standard Flood Hazard Determination Form" may be applicable, pursuant to the National Flood Insurance Reform Act of 1994 and FDIC regulations (12 CFR 339.6).
		√	Escrow Accounts - Exterior Repairs	If an escrow account is created in accordance with section 1980.315 of RD Instruction 1980-D, the following information must be documented/retained in the lender's case file: 1) obtain a signed contract and bid schedule for the proposed work; 2) the contract for development work must provide for completion of 120 days; 3) the lender must agreed to obtain a final inspection; 4) the escrow account must be funded in a sufficient amount to assure completion of work. The lender is required to advise Rural Development upon completion of the work.

Documentation Matrix - Post Closing



Use of the following information is for reference in documenting SFHGLP files. For complete information, refer to RD Instruction 1980-D, supplemented by applicable Administrative Notices (AN). <http://www.rurdev.usda.gov/regs/>

Post Closing

GUS Accept	Manual UW - Submit to RD for Commitment [Includes GUS Refer & Refer w/Caution]	Documentation - Lenders' Case File	Topic	Documentation
√	√	√	Lender Certification of Loan Disbursement - Form RD 1980-18	A completed, signed <i>Lender Certification of Loan Disbursement</i> confirming the loan was closed in accordance with the Conditional Commitment issued and validating no adverse changes have occurred.
√	√	√	Conditions precedent to issuance of the Conditional Commitment	Documentation addressing each condition of the issued Conditional Commitment as noted at section 1980.363 of RD Instruction 1980-D.
√	√	√	Guarantee Fee	Correctly calculated/collected Guaranteed Fee.
√	√	√	Promissory Note	The principal amount of the note must correspond to the Loan Note Guarantee.

Post Closing, cont'd

GUS Accept	Manual UW - Submit to RD for Commitment [Includes GUS Refer & Refer w/Caution]	Documentation - Lenders' Case File	Topic	Documentation
√*	√*	√*	Interest Rate, <i>as applicable</i> *	Changes in interest rate from Conditional Commitment require recalculation of qualifying ratios. If the interest rate was floating at issuance of Conditional Commitment, the lender must confirm the date the interest rate was locked to allow Rural Development to calculate and confirm the maximum allowable interest rate. Loan Note Guarantees will not be issued for loans closed outside of the acceptable interest rate thresholds.
√*	√*	√*	Confirmation of Escrow Development Completion, <i>as applicable</i> *	The lender is required to advise Rural Development upon completion of the work. A Loan Note Guarantee may be issued if the work remains pending at Loan Note Guarantee request, however, it is the responsibility of the lender to confirm with Rural Development when work is completed. The lender may submit a final inspection or email the office who issued Form RD 1980-18 communicating the completion of development. The lender remains responsible to insure all development is completed in accordance with the Conditional Commitment.
		√	Deed of Trust or Mortgage	The mortgage amount must match documentation in the case for Conditional Commitment or Loan Note Guarantee and signed by all owners.
√	√	√	Final HUD-1 Settlement Statement	Loan amount must match the Promissory Note. Cash back to borrower cannot exceed borrower's contribution POC. Loan funds may not be distributed to the borrower.
		√	Title Policy	The title policy must cover the collateral property.
		√	Insurance Policy	Collateral must be adequately insured.