



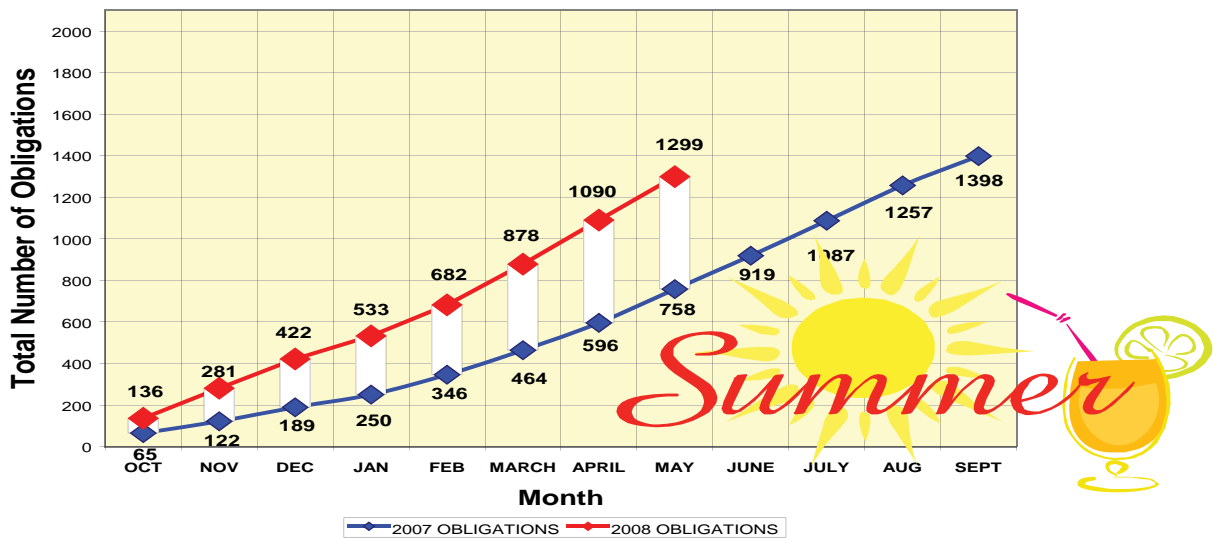
Guaranteed Housing News June - July 2008

Committed to the future of rural communities.
101 South Main Street, Suite 102
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Summer days are HOT in Texas and so are USDA Guaranteed Rural Housing Loans!

Texas GRH Obligations as of 5/31/08



Recent Administrative Notices (ANs)

AN 4367 (1980-D) Single Family Housing Guaranteed Loan Program Determining Repayment Income for Self-Employed Applicants, May 7, 2008

AN 4366 (1980-D) Single Family Housing Guaranteed Loan Program Approved Lender Underwriting Guidelines, Debt Ratio Waivers, Payment Shock, and Collection Accounts, May 7, 2008

AN 4365 (1980-D) Single Family Housing Guaranteed Loan Program Appraisals in Remote Rural Area, May 7, 2008

AN 4364 (1980-D) Single Family Housing Guaranteed Loan Program Existing Dwelling Inspection Requirements; Acceptable Origination Appraisal Forms, May 7, 2008

AN 4363 (1980-D) Single Family Housing Guaranteed Loan Program Acceptable Alternative Documentation to Verify the Applicant's Employment Income, May 2, 2008

AN 4362 (1980-D) Single Family Housing Guaranteed Loan Program Official Record - Minimal Essential Documents, May 7, 2008

To get a copy of the ANs go to: <http://www.rurdev.usda.gov/regs/>
and
select "Administrative Notices"

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To file a complaint of discrimination write USDA, Director, Office of Civil Rights, 1400 Independence Avenue, S.W., Washington, D.C. 20250-9410, or call (800) 795-3272 (voice), or (202) 720-6382 (TDD).



What About Circumstances?

Lately there has been much discussion concerning quality underwriting and conforming to Agency Standards:

RD AN No. 4346 March 28, 2008 , Single Family Housing Guaranteed Loan Program Utilizing Credit Scores for Underwriting Single Family Housing Guaranteed Loans

*“The lender must secure documentation evidencing that the **circumstances** surrounding the adverse information were temporary in nature, and were beyond the applicant’s control, and have been removed so their reoccurrence is unlikely.”*

RD AN No. 4366 May 7, 2008 , Single Family Housing Guaranteed Loan Program Approved Lender Underwriting Guidelines, Debt Ratio Waivers, Payment Shock, and Collection Accounts

‘Mitigating circumstances must be documented in the lender’s file if the applicant(s) credit scores are 619 and below if there are open collection accounts. In such cases, the lender must document the adverse credit was temporary in nature and beyond the applicant’s control and has been removed. ‘

The Lender decides if the Applicant must pay or not pay non-federal collections

We have discussed these AN with our National Office and they have confirmed that the Lender may consider mitigating circumstances to establish the borrower’s intent for good credit when the applicant provides documentation that:

The **circumstances** were of a temporary nature,

The **circumstances** were beyond the applicant’s control, and

The **circumstances** that caused the adverse credit have been removed so their reoccurrence is unlikely

(e.g., loss of job; delay or reduction in benefits or other loss of income; increased expenses due to illness, death, etc.);

For more information see RD Instruction 1980-D, §1980.345 (d) (3)

So what about Applicants with FICO scores of 580 and below?

RD AN No. 4346 March 28, 2008 states that Loans with FICO scores of 580 and below are very high risk and tend to exhibit a much higher rate of default. **Lenders should not approve loans with FICO scores of 580 and below if they exhibit any of the indicators of unacceptable credit per RD Instruction 1980-D, section 1980.345(d) which include:**

- One or more debt payments being 30 days late within the last 12 months
- Foreclosure discharged less than 36 months
- Outstanding tax liens or delinquent government debts with no payment arrangements, currently due
- Outstanding judgments within the last 12 months
- Two or more rent payments 30 days late within the last 3 years
- Accounts converted to collections within the last 12 months
- Outstanding collection accounts with no payment arrangements that are currently due
- Bankruptcy discharged less than 36 months

Extraordinary compensating factors must be present to warrant a lender to issue an adverse credit waiver for applicants with FICO scores of 580 and below. Additional risk layering in addition to the lower score is not recommended.

So what does this mean?

In most cases USDA will not be issuing Loan Note Guarantees to applicants who have FICO scores of 580 and below. The Lender would have to document that there were highly unusual or exceptional compensating factors that warrant a credit waiver. **For more information see RD AN No. 4346 March 28, 2008** To get a copy of the ANs go to: <http://www.rurdev.usda.gov/regis/> and select “Administrative Notices”