



Committed to the future of rural communities.

# RURAL DEVELOPMENT



## RURAL HOUSING SERVICE GUARANTEED RURAL HOUSING LOAN PROGRAM

- No down payment to qualified borrowers
  - No monthly mortgage insurance
  - 30 Year fixed rate financing
- \$0 Move-in possible for qualified borrowers
  - No cash reserve requirements
  - Broad secondary market acceptability

The guide is a summary of the Guaranteed Rural Housing (GRH) loan program and RD Instruction 1980-D. It is intended as a guide for information and training purposes only. Actual program requirements are governed by RD Instruction 1980-D.

Copies of RD Instruction 1980-D can be obtained from any Rural Development office or on the Internet at <http://rdinit.usda.gov/regs/> and click on the link "Instructions".

# Table of Contents

## Websites

## Program Flyer

## Applicant Eligibility

7 – 10	Documentation and Making Credit Waivers
11 - 14	RD AN No. 3967 dated 04/08/04 “Applicant Credit History Verification
15 – 17	Non-Purchasing Spouses & RD TX Unnumbered letter dated 4/10/03
18	Calculating Repayment Ratios
19	Making Repayment Ratio Waivers
20 - 25	RD AN No. 3936 dated 2/10/04 “Debt Ratio Waivers”
26	Evaluating Payment Shock and Multiple Risks
27 – 30	RD AN No. 3940 dated 2/18/04 “GRH Approved Lender Underwriting Guidelines”
31 - 37	Streamlined Underwriting & RD AN 3948 “Credit Scores”
38	Homebuyer Education
39	Maximum Loan Amounts
40 – 41	Refinancing

## Property Eligibility

43	New and Existing Homes
44 – 45	Eligible Rural Areas
46 – 48	Required Items for Newly Constructed Dwellings
49 – 50	Termite Requirements for New Construction
51 – 55	Required Items for Existing Dwellings – Valuation Conditions
56	Final Inspection Form – Existing Homes
57 – 58	Thermal Performance Requirements – UL Dated 4/21/03
59 – 62	Appraisals
63	Flood Zones
64 – 65	Manufactured Homes

## Processing Applications

67 – 68	Application Processing & “The 10 Step Process”
69	Processing Checklist
70 – 75	Alternative Docs. To Verify Employment Income, RD AN No. 3949
76 – 85	Sample Forms
86	Guaranteed Rural Housing Fee
87	Summary of Income Limits & Income Calculation Worksheet
88	Income Eligibility Calculation Worksheet
89	Verification of Child/Dependent Care

# Websites

*USDA Home Page*

<http://www.usda.gov/>

*Rural Development Home Page*

<http://www.rurdev.usda.gov/>

*Rural Development Regulations*

<http://rdinit.usda.gov/regs/index.html>

*Rural Development Forms*

<http://rdinit.usda.gov/regs/formlist.html>

*Texas USDA Rural Development Home Page (includes some Texas forms)*

<http://www.rurdev.usda.gov/tx/>

*Property and Income Eligibility*

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

*Housing Counseling Agencies*

<http://www.hudhcc.org/agencies/texas.txt>



## USDA Rural Development Guaranteed Rural Housing Loans

USDA Rural Development Guaranteed Rural Housing Loans for Single Family Dwellings offers hope for those who want to own a home, but have not managed to save for a down payment. The program is the best option for eligible low and moderate-income applicants to move into a home without a down payment. In many cases, most of the closing costs associated with purchasing the house can be financed into the loan up to the appraised value of the property. Loans can be made to purchase new or existing homes that meet Agency requirements.

In addition to allowing a **Maximum Loan to Value ratio of 100%**, another very attractive feature of this loan program is that the borrower is not required to pay mortgage insurance. Other zero down programs charge an up front mortgage insurance premium that is due at closing, with monthly mortgage insurance thereafter. In comparison, the Guaranteed Rural Housing Program offers significant savings to borrowers by only charging a one and three fourths percent (1.75%) guarantee fee that is due at closing, and **No Monthly Mortgage Insurance**. Typical savings for a family can range between \$30.00 and \$60.00 per month.

USDA Rural Development housing programs target communities with populations of 10,000 or less and locations not closely associated with urban areas. Under certain circumstances loans can be made in towns and cities between 10,000 and 25,000 in population. Many areas are eligible – never assume your area is not eligible. Eligible areas are illustrated on maps available on the Texas USDA Rural Development website at [www.rurdev.usda.gov/tx/eligible.htm](http://www.rurdev.usda.gov/tx/eligible.htm).

The program is designed to provide credit for people in rural areas who are unable to afford a conventional loan. In order to obtain a loan, applicants must be without ownership of safe and sanitary housing and meet the following criteria:

- Have an adjusted annual household income within the applicable moderate income listed in RD Instruction 1980-D, Exh. C for the family size and the county where the property being financed is located. A family of four with a household income of \$66,150 meets the income guidelines in most areas of the state. The income limits are higher in some areas.
- Have adequate and dependably available income that is sufficient to pay for the cost of home ownership and existing long term debt obligations. The maximum housing expense (PITI) ratio and total debt (TD) ratio typically cannot exceed 29% and 41% respectively. In some cases, PITI ratios in the mid to high 30s and TD ratios in the mid to high 40s may be acceptable if legitimate compensating factors exist. Generally, the stronger the compensating factors, the more flexibility there will be on the debt ratio exceptions.
- Have an acceptable credit history that demonstrates an applicant's willingness and ability to repay the mortgage loan being requested. The buyers' credit history does not have to be perfect. Lenders may consider extenuating circumstances and grant exceptions when evaluating an applicant's credit history.

Private lenders, such as mortgage companies and commercial banks make USDA Rural Development Guaranteed Loans. The loans have a 30-year term and a fixed interest rate. Unlike other zero down loan programs, the Guaranteed Rural Housing Program does not have loan limits. The maximum loan is determined by the applicant's income and repayment ability. The unique features of these loans may allow the buyer to qualify for more home than they may think. For more information visit our website at [www.rurdev.usda.gov/tx/sfh.htm](http://www.rurdev.usda.gov/tx/sfh.htm) under "Texas Regulations". You may contact us via E-mail at [Daniel.Torres@tx.usda.gov](mailto:Daniel.Torres@tx.usda.gov) or [Elizabeth.Sherrod@tx.usda.gov](mailto:Elizabeth.Sherrod@tx.usda.gov)

# APPLICANT ELIGIBILITY

Applicant eligibility requirements can be found in RD Instruction  
1980-D, Section 1980.345

**In order for applicants to be eligible for the USDA Rural Development Guaranteed Rural Housing (GRH) program, they must meet the following requirements:**

- Must have an income which does not exceed the applicable moderate income for the county and family size **(RD Instruction 1980-D, Exhibit C)**  
Income limits for Texas and an income calculation worksheet can be found at the end of this training guide.
- Must have adequate and dependably available income
- Must have repayment ability for the proposed loan and other monthly obligations. Repayment is defined as ratios of 29% (housing expense to income ratio) and 41% (total monthly obligations with proposed house payment to income ratio)
- Must be purchasing a home in an eligible rural area
- Must be unable to obtain the needed credit from CONVENTIONAL sources and the lender will not make the requested loan without the RHS Guarantee. Conventional credit does not include FHA, VA, or other low/moderate income programs

- Must have an acceptable credit history. The following indicates unacceptable credit history:
  1. Incidents of more than 1 debt payment more than 30 days late in the last 12 months
  2. Foreclosures within the last 36 months
  3. Outstanding tax liens or delinquent government debts with no satisfactory arrangements for payments and a history of making those payments
  4. An outstanding judgement
  5. 2 or more rent payments more than 30 days late within the last 3 years
  6. Accounts converted to collections within the last 12 months
  7. Collection accounts outstanding with satisfactory payment arrangements for payment and no history of making those payments
  8. Charge-offs within the last 36 months

Although the USDA Rural Development Guaranteed Rural Housing program **is not** a “*bad credit*” program, the lender may consider mitigating circumstances to establish the applicant’s intent for good credit when the applicant provides **documentation** that:

The circumstances that caused the adverse ratings were:

- Beyond the applicant’s control, temporary in nature, and have been removed (e.g., a loss of a job, an illness or death in the family, a reduction in benefits or income)      **OR**
- The adverse item or delinquency was the result of a refusal to make payment because of defective goods.

In order for the lender to make an exception to adverse credit items, the lender must include in the file the supporting documentation along with their narrative of their findings for the exception.

Lenders must verify applicant’s credit history in accordance with RD Instruction 1980-D, Section 1980.353 (e)(4) and RD AN No. 3967 (1980-D) dated 04/08/04

In order for the lender to properly document the exception on the adverse credit, lenders will use the **Credit Waiver Form in this guide.**

## Treatment of Collection Accounts with Balances Outstanding

- The lender's underwriter must determine whether the collection account(s) resulted from a disregard for, or an inability to manage financial obligations, or to factors beyond the applicant's control.
- When a lender's underwriter determines that a credit waiver can be approved based on extenuating circumstances, it is at the lender's underwriter's discretion to evaluate whether a collection account should be paid in full, remain unpaid, or allow existing payment arrangements to be left in place.
- USDA Rural Development staff will not impose the requirement that any collection account with an outstanding balance is paid in full. Such a judgment is reserved for the lender to make when underwriting the loan.
- The lender's decision should be based on supporting documentation obtained from the applicant.
- Lenders should ensure that allowing outstanding collection accounts to remain unpaid will not adversely affect the security for the proposed housing loan.

**The official Agency position is to fully comply with RD Instruction 1980-D and all Administrative Notices on this subject, neither of which require that collection accounts be satisfied prior to or at settlement.**



TO: All State Directors  
Rural Development

ATTENTION: Rural Housing Program Directors, Rural Development Managers,  
Guaranteed Rural Housing Coordinators, and Community Development  
Managers

FROM: Arthur A. Garcia     *(Signed by Arthur A. Garcia)*  
Administrator  
Rural Housing Service

SUBJECT: Single Family Housing Guaranteed Loan Program (SFHGLP)  
Applicant Credit History Verification

PURPOSE/INTENDED OUTCOME:

The purpose of this Administrative Notice (AN) is to elaborate upon what forms of credit history and current debt verifications are acceptable for loans guaranteed under the SFHGLP. The intended outcome of this AN is to establish that the Rural Housing Service (RHS) will accept similar verification methodologies currently acceptable to the residential mortgage industry, secondary markets, and other Federal agencies.

COMPARISON WITH PREVIOUS AN:

This AN replaces AN No. 3831 dated March 7, 2003.

EXPIRATION DATE:  
April 30, 2005

FILING INSTRUCTIONS:  
Preceding RD Instruction 1980-D

## BACKGROUND:

An essential component to mortgage lending is to determine what current debt payments a loan applicant already is obligated to make, evaluate the applicant's credit history, and to establish the applicant's willingness and ability to repay the additional credit obligation represented by the requested home mortgage loan.

Information lenders use to make applicant credit evaluations is typically obtained from one of the following sources:

- In-File Credit Reports: An in-file credit report is issued by one credit repository or credit reporting agency. It contains "as is" information as of the last date reported by the credit grantor subscribing or reporting to the credit repository. No information is updated or re-verified by the credit repository as a result of the mortgage credit inquiry.
- Residential Mortgage Credit Reports (RMCR): A RMCR contains merged credit information from at least two national repositories. The consumer reporting agency or bureau supplying the RMCR typically uses its best efforts to re-verify accounts directly with creditors (if the account is reported to have a balance but was updated by the creditor over 90 days from the date of the credit report). The consumer reporting agency also attempts to verify the applicant's employment and residence history. The consumer reporting agency interviews the applicants when the lender has incomplete information or when it discovers information that indicates the possible existence of undisclosed credit obligations or public records.
- Merged, Tri-Merged, or Multi-Merged Credit Reports (MMCR): A MMCR is issued by a credit repository or consumer reporting agency and includes the in-file credit report information from at least two credit repositories. Merged credit reports are also known as tri-merge credit reports if the merged report contains in-file credit report information from three credit repositories.

The MMCR must identify all the credit repositories whose information was merged into the report. The credit information from each credit repository may be presented in their entireties on the MMCR, or the consumer reporting agency may eliminate duplicate records through an automated merge process. Duplicate information need not be repeated. However, if the duplicate information is not exactly the same on each report, the MMCR must either repeat the information or include the most derogatory of the duplicate information that pertains to payment history and or current payment status.

The MMCR, in effect, is an adaptation of the RMCR. Substantially all the information supplied on an RMCR, which is not on an MMCR (i.e. income and employment verification), is already obtained and verified independently by lenders under current procedures.

- Non-Traditional Mortgage Credit Reports (NTMCR): A NTMCR is developed by a credit reporting agency and is designed to assess the credit history for borrowers without the types of trade references normally appearing on a RMCR or MMCR. NTMCRs are typically used for those prospective borrowers who have not yet established a credit history or who do not use traditional credit. A NTMCR may be used either as a substitute for an RMCR or MMCR for those borrowers without a credit history with traditional credit grantors, or to supplement RMCR's or MMCR's that do not have sufficient traditional credit references reported. An NTMCR may not, however, be used to enhance the credit history of borrowers with poor payment records. It may not be used to offset derogatory references found in the borrower's RMCR or MMCR.

If the information obtained through the RMCR or MMCR is not available or not sufficient for the lender to make a prudent underwriting decision, the lender may use an NTMCR that documents all available nontraditional credit references. Non-traditional credit references may include:

1. utility payment records (if utilities were not included in the rental payment);
2. rental payments;
3. insurance payments (excluding those paid through payroll deductions) such as medical, automobile, life and household or renter's insurance;
4. payments to child care providers;
5. school tuition; payments to local stores;
6. payments for the uninsured portions of any medical bills;
7. or any other reference which gives insight into the applicant's willingness to make periodic payments on a regular basis for credit obligations.

Alternatively, rather than order an NTMCR from a consumer reporting agency, a lender may develop its own nontraditional credit history for a proposed applicant provided that the analysis includes the types of references, when available, listed above. The lender should consider only those types of credit that require the applicant to make periodic payments on a regular basis.

#### IMPLEMENTATION RESPONSIBILITIES:

In keeping with the standards of the mortgage industry, the secondary markets, and the other Federal agencies administering insured or guaranteed single family housing loan programs, RHS field staff reviewing requests for guarantees under the SFHGLP should accept MMCRs, NTMCRs, as well as RMCRs for purposes of RD Instruction 1980-D, Section 1980.353(e)(4).

RMCRs, MMCRs and NTMCRs that meet the standards of Fannie Mae, Freddie Mac, Housing and Urban Development (HUD) and the Department of Veteran Affairs (VA) are acceptable for RHS purposes. In the case of MMCRs, tri-merged reports are preferred because they contain in-file credit report information from three separate credit repositories. Dual-merged credit reports are acceptable only if that is the extent of the data available for the borrower. If only one in-file report is available for the borrower, the lender must obtain an RMCR.

While an MMCR should prove sufficient for processing most loan applications, other circumstances that require the ordering of an RMCR include:

1. The borrower disputes accounts on the MMCR as belonging to someone else; or
2. The borrower claims that collections, judgements, or liens reflected as open on the MMCR have been paid and cannot provide separate documentation supporting this; or
3. The borrower claims that certain debts shown on the MMCR have different balances or payments and cannot provide current statements (less than 30 days old) attesting to this fact; or
4. The lender's underwriter determines that it would be prudent to utilize a RMCR in lieu of an MMCR to properly underwrite the loan.

### Rent History

Some first time homebuyers simply do not have a verifiable housing or rent payment history. In such cases, a rent history is not required. If the applicant's Fair Isaac and Company (FICO) credit score is under 660 and the applicant has a rent payment history, the lender should obtain a rent payment reference either as part of the credit report, directly from the landlord, or through cancelled checks covering the most recent 12 month period prior to the loan application. If the applicant's FICO score is over 660, there is no need to verify an applicant's rent payment history.

## Non-Purchasing Spouses are allowable with the Guaranteed Rural Housing program.

Lenders may submit GRH loans to USDA Rural Development on the basis of a Non-Purchasing spouse. Lenders are required to document the files that the non-purchasing spouse's income has been considered for Rural Development INCOME ELIGIBILITY. If the non-purchasing spouse does not have any type of income, the lender will provide a statement in the file to that effect.

The income and credit (payments and history) of the non-purchasing spouse will not be considered for the determination eligibility of the applicant. Debts which are joint debts of the applicant and non-purchasing spouse must be considered for the repayment ability of the applicant.

See Rural Development Texas Unnumbered Letter "Non-Purchasing Spouses – Single Family Housing Applications" dated April 10, 2003 for further guidance if needed.



United States Department of Agriculture  
Rural Development

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April 10, 2003

TO: All Offices  
USDA Rural Development, Texas

FROM: Bryan Daniel   
State Director  
USDA Rural Development, Temple

SUBJECT: Non-Purchasing Spouses – Single Family Housing Applications

The purpose of this unnumbered letter is to provide guidance for USDA Rural Development employees in the processing of Single Family Housing (SFH) applications. This unnumbered letter replaces USDA Rural Development Texas AN No. 563 which expired January 31, 2003. USDA Rural Development employees will review and process SFH Direct and Guaranteed Rural Housing (GRH) applications in the manner described below when the application package is submitted on the basis of a non-purchasing spouse.

Pursuant to the Equal Credit Opportunity Act (ECOA), applicants may apply for USDA Rural Development assistance with a non-purchasing spouse. A non-purchasing spouse is the spouse of the applicant who does not wish to join in the application and will not be a party to the note. As provided in the ECOA, a creditor may not require the signature of an applicant's spouse or other person, other than joint application, on any credit instrument if the applicant qualifies under the creditor's standards of creditworthiness for the amount and terms of the credit requested.

Based on this, the spouse will not be required to sign Form RD 410-4 "Uniform Residential Loan Application" nor the lender's application for a GRH loan. A non-purchasing spouse will not be considered a co-applicant, only a member of the household. As with any member of a household, the income of the non-purchasing spouse must be considered for income eligibility. Verifications for the non-purchasing spouse will be obtained as prescribed by HB -1 3550 "Field Office Handbook" and RD Instruction 1980-D, in the same manner as for the other non-borrower household members. Since the non-purchasing spouse will not be a party to the note, that spouse's income, if any, will not be counted in ratio calculations.

In addition, since the non-purchasing spouse is not a party to the note, that spouse's credit history will not be used to determine creditworthiness of the applicant. Only the information from the Residential Mortgage Credit Report (RMCR) for the applicant will be used to determine creditworthiness.

EXPIRATION DATE:  
March 31, 2004

FILING INSTRUCTIONS:  
Rural Housing Programs

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

BECAUSE THE NON-PURCHASING SPOUSE IS NOT AN APPLICANT, LOCAL OFFICES WILL NOT OBTAIN EITHER AN INFILE CREDIT OR A RESIDENTIAL MORTGAGE CREDIT REPORT ON THAT SPOUSE. Any joint debt of the non-purchasing spouse will be indicated on the applicant's credit report.

In order to calculate the repayment ratios for an applicant, individual and joint monthly obligations of the applicant will be used. The individual monthly debt obligations of the non-purchasing spouse will not be used in the ratio calculations.

As stated in ECOA, 12 U.S.C.A. 202.7 (d)(4), creditors may require the non-purchasing spouse to sign the security instrument covering the property being purchased in order to make the property available to satisfy the debt in the event of default. Because Section 502 Direct and Guaranteed Rural Housing loans are secured debt, the non-purchasing spouse will be required to execute the Deed of Trust. This requirement applies to loans for the construction of a new dwelling, the purchase of an existing dwelling or rehabilitation of an existing dwelling. The non-purchasing spouse will not be required to execute any other instrument except as required by the title insurance company.

In addition to the filing requirements indicated on the first page of this AN, local offices will also file a copy in HB-1 3550, State Supplements.

Please contact Leon Carey, Rural Housing Programs, if you have any questions.

## CALCULATING REPAYMENT RATIOS

Applicants have repayment ability when their proposed Principal, Interest, Taxes, and Insurance (PITI) ratio does not exceed 29% of their gross income and when their total monthly debt including the proposed house payment does not exceed 41%.

For the Guaranteed Rural Housing program, the total debt ratio is calculated by including long-term obligations with the proposed house payment. Long term obligations include:

- Alimony
- Child Support
- Other obligations with a remaining repayment term of more than **6 months**
- Other shorter term debts that have a **significant impact** on the household's monthly budget because of the amount of the payment
- Co-signed obligations
- Debts from a previous marriage when the applicant has not been released

*The lender may exclude co-signed debts and debts from a previous marriage when the applicant can provide documentation (usually in the form of cancelled checks) that the other debtor has made payments on time for at least the last 12 months. This documentation must be included in the mortgage loan file.*

# WAIVERS FOR APPLICANTS EXCEEDING THE RATIOS

If the applicant's PITI (front) and/or Total Debt (back) ratio exceed the maximum authorized ratio, the lender may request USDA Rural Development concurrence in allowing a higher ratio based on **COMPENSATING FACTORS**.

Lenders will follow the guidelines and requirements of RD Administrative Notice (AN) No. 3936 (1980-D) dated February 10, 2004 in processing of GRH loans involving ratios which exceed the requirements.

All ratio waivers will be issued by USDA Rural Development to lenders in writing. Lenders requesting debt ratio waivers are responsible for documenting the compensating factors supporting the waiver. If necessary, USDA Rural Development staff will assist lenders in determining any compensating factors associated with loan applications.

**PLEASE NOTE:** Higher ratios ARE NOT allowed for energy efficient homes.

RD AN No. 3936 (1980-D)  
February 10, 2004

TO: All State Directors  
Rural Development

ATTENTION: Rural Housing Program Directors, Rural Development Managers,  
Guaranteed Rural Housing Coordinators, and Community Development  
Managers

FROM: Arthur A. Garcia     *(Signed by Arthur A. Garcia)*  
Administrator  
Rural Housing Service

SUBJECT: Guaranteed Rural Housing (GRH)  
Single Family Housing Guaranteed Loan Program (SFHGLP)  
Debt Ratios Waivers

PURPOSE/INTENDED OUTCOME:

The purpose of this Administrative Notice (AN) is to elaborate upon the use of debt ratio waivers when approving loan guarantees under the SFHGLP and RD Instruction 1980-D, § 1980.345. This AN also provides information on potential compensating factors, including credit scores, to be used by the Agency when evaluating a lender's request for a debt ratio waiver.

COMPARISON WITH PREVIOUS AN:

This AN replaces AN No. 3817 (1980-D) dated January 10, 2003.

EXPIRATION DATE:  
February 28, 2005

FILING INSTRUCTIONS:  
Preceding RD Instruction 1980-D

## BACKGROUND:

Monthly debt-to-income ratios are widely used in the home mortgage industry as a measure of an applicant's cash flow or repayment ability. Two ratios are routinely calculated: 1) the "PITI" ratio consisting of the proposed monthly loan payment of principal, interest, taxes, and insurance (PITI) divided by the applicant's gross monthly income, and 2) the total debt or "TD" ratio consisting of the applicant's total long term debt obligations, including the proposed monthly loan PITI payment, divided by the gross monthly income. In the SFHGLP, an applicant meets Agency requirements for repayment ability when the applicant's PITI ratio is less than or equal to 29 percent and the TD ratio does not exceed 41 percent.

In the home mortgage industry it is common for underwriters to make exceptions to both the TD and the PITI ratio requirements. The exceptions are based on the total strength of the application and the applicant's credit worthiness which, aside from debt ratios, include variables such as employment stability and credit history. Each loan application is a separate and unique transaction composed of many factors other than the debt ratios. Debt ratio exceptions are feasible when an applicant demonstrates compensating factors indicating the capacity, willingness, and ability to pay mortgage payments in a timely manner. Generally, the stronger the compensating factors, the more flexibility there will be in debt ratio exceptions. There is not a maximum amount that the ratio standards may be exceeded. Depending on the strength of the compensating factors, PITI ratios in the mid to high 30s and TD ratio waivers in the mid to high 40s are not uncommon.

It is important that all debt ratio waivers be issued in writing by Agency staff to lenders. Lenders requesting debt ratio waivers are responsible for documenting the compensating factors supporting the waiver. Agency staff may assist lenders in determining any compensating factors associated with loan applications. If requested by a lender, Agency staff may make a preliminary determination of the appropriateness of a ratio exception for individual GRH application prior to the lender's submission of the file for a conditional commitment. In such cases, the Agency staff will notify the lender that preliminary ratio exception approvals are subject to a final review and approval by the Agency at the time of conditional commitment issuance.

## IMPLEMENTATION RESPONSIBILITIES:

The National Office supports granting ratio waiver requests to applicants with legitimate compensating factors. The GRH program regulations authorize the Agency, at its discretion and on a case-by-case basis, to approve a lender's request for debt ratio exceptions. Specifically, RD Instruction 1980-D, §1980.345(c)(5) states:

If the applicant's total debt ratio and/or PITI ratio exceed the maximum authorized ratio, the Lender may request [RHS] concurrence in allowing a higher ratio based on compensating factors. Acceptable compensating factors include, *but are not limited to*, the applicant having a history over the previous 12 month period of devoting a similar

percentage of income to housing expense to that of the proposed loan, or accumulating savings which, when added to the applicant's housing expense and shows a capacity to make payments on the proposed loan. A low total debt ratio, *by itself*, does not compensate for a high PITI. (Emphasis and underscore added).

### Common Compensating Factors

Common compensating factors used by the Agency under RD Instruction 1980-D, §1980.345(c)(5) include, but are not limited to:

- A. The borrower has demonstrated a conservative attitude toward the use of credit and ability to accumulate savings.
- B. Previous credit history shows that the borrower has the ability to devote a greater portion of income to housing expenses (i.e. the applicant has a history over the previous 12 month period of devoting a similar percentage of income to housing expense to that of the proposed loan, or accumulating savings which, when added to the applicant's housing expense, shows a capacity to make payments on the proposed loan).
- C. The borrower receives compensation or income not reflected in effective income, but directly affecting the ability to pay the mortgage, including food stamps and other similar public benefits.
- D. There is only a minimal increase in the borrower's housing expense.
- E. The borrower has substantial cash reserves after closing.
- F. The borrower has substantial non-taxable income not previously accounted for in the ratio computations.
- G. The borrower has potential for increased earnings, as indicated by job training or education in the borrower's profession.
- H. 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.
- I. A low TD ratio. A low TD ratio *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.

## Using Credit Scores as a Compensating Factor

An additional compensating factor is:

Fair Issac & Company (FICO) credit scores of 660 or higher. FICO scores of 660 or higher constitute a strong positive compensating factor that may be used by itself, or coupled with other common compensating factors, to justify a debt ratio waiver. Other compensating factors for a ratio waiver request may be listed, but need not be documented, if the FICO score is 720 or higher.

Debt ratio exceptions may also be considered and approved for loans with FICO scores under 660. A co-borrower with a credit score of 660 or higher is only one of many potential compensating factors. Indeed, borrowers with the lowest of credit scores may still become successful homeowners and repay their GRH loans as agreed.

Credit scoring technology is based on statistical models which assess how likely a borrower is to pay back a loan. A FICO credit score is based exclusively on data in a borrower's credit report. The borrower's information is measured against historical data from thousands of loan profiles and their respective loan repayment performances. The borrower is then assigned a "score" predicting their loan performance should credit be extended. Relative to the home mortgage industry, FICO scores have been found to be highly predictive. The National Office has been tracking FICO scores on a sample basis for both current and delinquent GRH loans since 1998. Home mortgage industry statistics, as well as a study of GRH loans by the National Office, indicate that borrowers with FICO scores over 660 historically experience far fewer defaults than borrowers with FICO scores under 660.

FICO scores are also known as Beacon scores, Empirica scores, and Fair Issac scores. One or more scores may be found on the applicant's credit report. If the applicant's credit report contains two scores, the lender should select the lower of the two scores as the underwriting score for that applicant. If the applicant's credit report contains three scores, the lender should select the middle score as the underwriting score for that applicant.

Similar treatment should be given to a co-borrower's credit score. If there is more than one applicant, the credit score of the primary wage earner should be emphasized. This does not mean, however, that a co-applicant's credit score should be completely ignored. Special caution should be taken if the co-applicant's FICO score is under 620. Debt ratio waivers may still be granted in such cases.

Ratio waivers should be considered for applicants with legitimate compensating factors such as those described above. The mere presence of compensating factors, however, should not automatically compel a ratio exception, especially when multiple layers of risk in the application are present. Denial of a lender's request for a ratio waiver is not an appealable decision, however, this adverse action may be reviewed if and when the guaranteed loan is denied for lack of repayment ability.

# RATIO WAIVER REQUEST

## Rural Development

Date: \_\_\_\_\_  
Underwriting Lender Name: \_\_\_\_\_  
Lender's Address: \_\_\_\_\_  
Underwriter's Name: \_\_\_\_\_  
Underwriter's phone: \_\_\_\_\_ FAX: \_\_\_\_\_  
E-mail: \_\_\_\_\_

Applicant's name (print or type full name): \_\_\_\_\_  
Planned loan amount: \$ \_\_\_\_\_ Monthly repayment income: \$ \_\_\_\_\_  
Proposed ratios: front (PITI) \_\_\_\_\_ back (MOTI) \_\_\_\_\_  
Credit scores: \_\_\_\_\_ (attach credit report)  
Previous monthly housing cost: \_\_\_\_\_  
Proposed monthly housing cost: \_\_\_\_\_  
Employment history: \_\_\_\_\_

Compensating factors (list – if you need additional room, use attachment):

1. \_\_\_\_\_
2. \_\_\_\_\_
3. \_\_\_\_\_

Attach any additional comments, documentation or recommendations.

I, the underwriter, hereby approve the proposed ratios. Loan approval will be subject to all other underwriting conditions of both Rural Development and myself. I certify that the decision to approve the ratios is made in accordance with RD AN No. 3936 dated 02/10/04. I understand that it is my responsibility to determine that the ratios are reasonable based on the above listed factors. I understand that I, not Rural Development, am the primary decision maker in regard to accepting the proposed ratios. I understand that Rural Development concurrence with this decision is required and is evidenced by the Rural Development signature below.

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Date

I, a loan approval official of the USDA Rural Development, hereby waive the GRH loan ratio limitations as authorized by RD Instruction 1980-D, Section 1980.345 (c) (5).

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Date

# Evaluating Payment Shock and Multiple Risks

Lenders are required to underwrite the GRH loans prior to submission to USDA Rural Development. In addition to the required underwriting for income, credit and property issues, lenders must review the impact of payment shock and multiple risk factors on the applicant.

Lenders are required to follow the guidelines and requirements of RD Administrative Notice (AN) No. 3940 (1980-D) dated February 18, 2004 "GRH Approved Lender Underwriting Guidelines" which is attached.

Lenders must document the file submitted to USDA Rural Development on their underwriting analysis and decisions especially regarding AN No. 3940.

RD AN No. 3940 (1980-D)  
February 18, 2004

TO: All State Directors  
Rural Development

ATTENTION: Rural Housing Program Directors, Rural Development Managers,  
Guaranteed Rural Housing Coordinators, and Community Development  
Managers

FROM: Arthur A. Garcia *(Signed by James E. Selmon, III)* for  
Administrator  
Rural Housing Service

SUBJECT: Guaranteed Rural Housing (GRH)  
Single Family Housing Guaranteed Loan Program (SFHGLP)  
GRH Approved Lender Underwriting Guidelines

PURPOSE/INTENDED OUTCOME:

The purpose of this AN is to reiterate Agency methodology for evaluating "payment shock." The outcome of this AN is to provide underwriting guidance to SFHGLP lenders. It is the Agency's expectation that lenders will act responsibly when originating and underwriting loans under RD Instruction 1980-D.

COMPARISON WITH PREVIOUS AN:

This AN replaces RD AN No. 3818 (1980-D) dated January 10, 2003. A section has been added to clarify the requirement for lenders to document their underwriting analysis.

EXPIRATION DATE:  
February 28, 2005

FILING INSTRUCTIONS:  
Preceding RD Instruction 1980-D

## BACKGROUND:

Analysis of early delinquency by loans guaranteed under the SFHGLP indicates that payment shock is a delinquency factor when other risk factors (risk layering) is present. The presence of payment shock is especially significant when the borrower's credit history contains derogatory information. Aside from our internal studies, our findings are supported by numerous observations from the State Offices as well as a major study by one of our largest nationwide approved lenders.

The term "payment shock" signifies the increase in housing expenses experienced by a borrower. Payment shock is defined as a percentage under the following formula:

$(\text{New Principal Interest Taxes and Insurance (PITI)} \div \text{Previous Housing Expense}) - 1$

The following three examples illustrate payment shock as a percentage.

- A. The borrower's new PITI is \$187.00 and their former rent was \$100.00.  
 $187.00 \div 100.00 = 1.87$ ;  $1.87 - 1 = .87$ ;  $.87 = 87$  percent  
The payment shock in this example is 87 percent.
- B. The borrower's new PITI is \$345.00 and their former rent was \$150.00.  
 $345.00 \div 150.00 = 2.30$ ;  $2.30 - 1 = 1.30$ ;  $1.30 = 130$  percent  
The payment shock in this example is 130 percent.
- C. The borrower's new PITI is \$2,000.00 and their former rent \$1,000.00  
 $2,000.00 \div 1,000.00 = 2.00$ ;  $2.00 - 1 = 1.00$ ;  $1.00 = 100$  percent  
The payment shock in this example is 100 percent.

In cases where the borrower did not have prior housing expenses prior to purchasing a home, such as if the borrower was living with relatives, payment shock cannot be measured as a percentage.

## IMPLEMENTATION RESPONSIBILITIES:

When conducting an underwriting analysis, lenders should be sure that:

- An applicant's credit history indicates a reasonable ability and willingness to meet obligations as they become due. If the lender grants an adverse credit waiver, they should properly document that the applicant's adverse circumstances were of a temporary nature beyond the applicant's control and have been removed, or that the delinquency was the result of a justifiable dispute relating to defective goods or services. See RD Instruction 1980-D, §1980.345(d).

- The applicant has adequate repayment ability and a history of dependable, available income to support their credit obligations, including the contemplated extension of credit. Cosigned obligations and contingent liabilities should be evaluated with care under RD Instruction 1980-D, §1980.345(c).
- The real property securing the loan must meet all Agency standards including property standards, appraisal standards, thermal requirements, and those pertaining to water and waste disposal systems (see RD Instruction 1980.313). It is imperative that lender underwriters carefully evaluate the condition of a property offered as collateral under the SFHGLP.

In cases where payment shock is 100 percent or higher as well as in cases where the applicant did not have housing expenses prior to purchasing a home, no additional risk layering (such as adverse credit waivers, debt ratio waivers, or buydowns) should be allowed without strong compensating factors. Acceptable compensating factors include, but are not limited to, the following examples:

- The borrower has an excellent credit history reflecting timely repayment of credit obligations;
- The borrower has a Fair Isaacs & Company (FICO) credit score of 660 or higher;
- The borrower has demonstrated a conservative attitude toward the use of credit and an ability to accumulate savings;
- The borrower has a stable employment history over the past two years, demonstrating a dependable income stream;
- The borrower has potential for increased earnings, as indicated by job training or education in the borrower's profession.

Because the lender that is requesting the Conditional Commitment from the Agency is responsible for underwriting the loan, it is critical that the lender understand Agency underwriting guidelines. Agency staff should offer approved lenders regular training on GRH loan program guidelines.

RD Instruction 1980-D, §1980.353(c)(12) encourages the lender to submit a written loan underwriting analysis as part of the application submitted to the Agency. Typically, the underwriting analysis must be more than just evidence that an underwriter has reviewed and approved the file; i.e., the underwriter's signature. The Agency expects the lender's underwriter to prepare a sufficiently detailed underwriting summary describing the key factors in the underwriting process, with an emphasis on the strengths and weaknesses of the individual case. Many underwriters use Fannie Mae Form 1008, *Uniform Underwriting and Transmittal Summary*. Underwriters that choose to use Fannie Mae Form 1008 should use Sections III and VII to

summarize key factors in the underwriting process, such as stability of income, debt-to-income ratios, credit history, adverse credit waivers, payment shock, property considerations, and other comments pertinent to the underwriting decision. The lender's underwriter should list any underwriting exhibits that are attached.

Although the Agency is not responsible for underwriting individual GRH loans, approved lenders should be periodically monitored for GRH loan program underwriting compliance. Existing lenders with incidences of high early delinquencies or high loan losses should be subjected to quality control reviews to ensure that Agency underwriting standards are being adhered to. Newly approved lenders should have their underwriting reviewed based on the criteria outlined in RD Instruction 1980-D, §1980.309(g)(1).

# Streamlined Underwriting

Credit scores may be used to streamline documentation requirements for GRH applicants with **FICO scores of 660 or higher.**

GRH applicants with FICO scores of 660 or above may take advantage of streamlined documentation requirements:

- ❖ No requirement to document adverse credit history waivers (*except for delinquent Federal debt or previous Rural Development debt*)
- ❖ No action needed for any derogatory items (*i.e. outstanding collection accounts*)

In addition, lenders may use credit scores of 660 or higher for compensating factors for ratio waivers and payment shock.

Lenders will follow the guidelines and requirements of RD Administrative Notice (AN) No. 3948 (1980-D) dated March 3, 2004 "Utilizing Credit Scores for Underwriting Single Family Housing Guaranteed Loans" for streamlined documentation.

**Collection accounts with balances outstanding for applicants with credit scores below 660 will be treated as follows:**

- The lender's underwriter must determine whether the collection account(s) resulted from a disregard for, or an inability to manage financial obligations, or to factors beyond the applicant's control.
- When a lender's underwriter determines that a credit waiver can be approved based on extenuating circumstances, it is at the lender's underwriter's discretion to evaluate whether a collection account should be paid in full, remain unpaid, or allow existing payment arrangements to be left in place.
- The lender's decision should be based on supporting documentation obtained from the applicant.

TO: All State Directors  
Rural Development

ATTENTION: Rural Housing Program Directors  
Guaranteed Rural Housing Specialists  
Rural Development Managers  
Community Development Managers

FROM: Arthur A. Garcia (Signed by Arthur A. Garcia)  
Administrator  
Rural Housing Service

SUBJECT: Utilizing Credit Scores for Underwriting Single Family Housing  
Guaranteed Loans

PURPOSE/INTENDED OUTCOME:

This Administrative Notice (AN) outlines two uses for Fair Isaacs & Company (FICO) credit scores when underwriting Guaranteed Rural Housing (GRH) loans. The purpose of this AN is to make use of credit scoring technologies to improve the credit quality of GRH loans, and to streamline GRH loan program credit history documentation requirements.

COMPARISON WITH PREVIOUS AN:

This AN replaces AN No. 3819 (1980-D) dated January 10, 2003. This AN differs from the previous one by clarifying that the FICO credit scores for applicants other than the primary wage earner should not be ignored. Streamlined documentation will continue to be available for primary wage earners with a representative FICO score of 660 or higher, as long as there is no co-applicant with a representative FICO score under 620.

EXPIRATION DATE:  
March 31, 2005

FILING INSTRUCTIONS:  
Preceding RD Instruction 1980-D

## BACKGROUND:

Since the early 1990's, the mortgage industry has employed FICO and other credit scoring models for risk evaluation purposes and to streamline documentation requirements for applicants whose credit scores imply less credit risk. Fannie Mae and Freddie Mac have encouraged the use of credit scores by lenders and have developed their own automated underwriting systems that evaluate risk. Increasingly throughout the 1990's and early 2000's, the residential mortgage market, including the Federal Housing Administration (FHA) and Veterans Administration (VA), have utilized credit score based technology as the basis for credit extension decisions. RHS can benefit by employing the use of credit scores, as well. By incorporating credit scores into the loan underwriting process, RHS can both improve the efficiency of its program, and help ensure that GRH loans are made to applicants with credit histories indicating a reasonable probability of successful homeownership.

The primary starting point to many automated mortgage loan origination systems has been the statistical analysis and scoring models developed by FICO, widely known as FICO credit scores. FICO scores are used for many types of lending decisions, and they are an important component of most automated mortgage loan origination systems. A FICO credit score is based exclusively on data in a credit report. Factors never considered in a credit report or credit score include gender, race, age, national origin, religion, income level, or marital status. When a FICO score is calculated, the applicant's credit report information is measured against historical data from thousands of loan profiles and their respective loan repayment performances. The applicant is then assigned a "score" predicting loan performance should credit be extended. FICO scores have been found to be highly predictive. Home mortgage industry statistics, as well as a study of GRH loans by the National Office, indicate that borrowers with FICO scores over 660 historically experience far fewer defaults than borrowers with FICO scores under 660. Borrowers with FICO scores under 660 statistically experience rates of defaults high enough to warrant a thorough evaluation prior to extending mortgage credit.

RHS has been tracking and studying FICO scores for loans originated under the SFHGLP. Random samplings of current and delinquent loans indicate that FICO scores have a great deal of predictive value concerning loan performance. The following FICO range descriptions have become an accepted standard in the mortgage industry:

FICO Scores of 720 and above. The risk of default is statistically very low for applicants with credit scores in this range. Scores in this range are considered to represent excellent credit histories. Underwriters may judge the applicant's credit history to be very favorable. Much less emphasis can be placed on the role of repayment ratios in determining an applicant's creditworthiness. If there was additional credit history information of significance which was not included in the credit repository's file (and therefore, not taken into consideration in the credit score), an underwriter typically should use his or her judgment to determine the effect of that information on the applicant's creditworthiness. Because of the strength of the score, the underwriter need not obtain documentation from the applicant to explain instances of derogatory credit or recent credit inquiries.

FICO Scores Between 660 and 719. The risk of default is low for applicants who have credit scores in this range. Applicants with scores in this range are considered to have good credit histories that represent an acceptable level of risk to lenders and secondary markets. As long as the underwriter determines that no significant credit information is missing from the repository's credit file, he or she typically should consider the applicant's credit history to be acceptable without performing any additional analysis. Less emphasis can be placed on the role of repayment ratios in determining an applicant's creditworthiness. Because of the strength of the applicant's credit score, the underwriter usually should not have to obtain documentation to explain instances of derogatory credit or recent credit inquiries.

FICO Scores between 620 and 659. From a statistical perspective, applicants who have credit scores in this range begin to represent a higher degree of default risk. The credit score alone, however, is not sufficient for the underwriter to make an informed decision about the acceptability of the applicant's credit history. Before approving financing for an applicant who has a credit score in this range, the underwriter typically should perform a complete assessment of all aspects of the applicant's credit history. The underwriter should consider the applicant's credit history risk in relation to other risks in the application to form an opinion about overall mortgage risk. The underwriter should generally consider an applicant with a credit score in this range acceptable as long as multiple high-risk factors (such as applicants who have recently become self-employed, payment shock, or applicants who have debt-to-income ratios in excess of benchmark ratios) are not layered.

FICO Scores Below 620. The risk of default is statistically very high for applicants who have credit scores in this range. Although these applicants account for a relatively small percentage of the total population of potential borrowers who have credit histories on file at one of the major credit repositories, research shows that they account for a disproportionate percentage of the eventual defaults. Because of the high risk of default associated with scores below 620, the underwriter should apply good judgment when he or she considers the unique circumstances of each application. The underwriter should look for compensating factors that were not considered in the development of the credit score or extenuating circumstances that can offset the credit risk reflected by the poor credit history. If there are sufficient compensating factors or extenuating circumstances that offset the higher risk of default associated with credit scores in this range, the underwriter may approve the financing. When the credit score is in this range, the underwriter should approve the mortgage application only if there is very little or no risk layering and strong compensating factors or extenuating circumstances are present to offset the applicant's high-risk credit history record. However, the FICO score should not be the sole determining factor in reaching an underwriting decision. Although a low credit score is indicative of a higher risk of default, it may still be appropriate to approve an applicant who has a low credit score based on other factors present in the mortgage application.

## IMPLEMENTATION RESPONSIBILITIES:

FICO scores may be used to streamline documentation requirements for GRH applicants with FICO scores of 660 or higher. In addition, to ensure they present an acceptable level of credit risk, lenders should judiciously evaluate applicants with FICO scores under 660, paying particular attention to carefully screening the credit histories of those applicants with FICO scores below 620.

FICO scores are also known as Beacon scores, Empirica scores, and Fair Issac scores, and one or more scores can be found listed on a borrower's credit report. If the borrower's credit report contains two scores, the lower of the two should be used for purposes of this AN. If the borrower has three scores, the middle score should be used as the representative score. Similar treatment should be given a co-borrowers credit score. If there is more than one applicant, the credit score of the primary wage-earner should be the one given the most emphasis. This does not mean that the FICO credit scores for other applicants should be ignored.

FICO scores generally range between 300 and 900. If no score is available the credit bureau output will be zero. Zero in these cases has the literal meaning of null, or indicating there was not enough information or credit references for the statistical model to compute a credit score value.

### (1) Streamlined Documentation when the FICO Credit Score is 660 or Higher

GRH applicants with FICO scores of 660 or above generally may take advantage of the streamlined documentation requirements listed below. If there are co-applicants with FICO scores under 620, this streamlined process will not apply and lenders should use paragraph (2) documentation procedures.

- A lender shall not be required to document adverse credit history waivers under RD Instruction 1980-D, §1980.345(d)(3), except for those involving a delinquent Federal debt or previous Agency loan.
- A lender shall not be required to document applicant rent payment history. If the applicant's FICO score is under 660 and the applicant has a rent payment history, the lender should obtain a rent payment reference either as part of the credit report or separately. In such cases, the lender should obtain verification of the applicant's rent payment history for the 12 month period prior to the loan application.

- No action will be necessary for any derogatory items, such as those listed in RD Instruction 1980-D, § 1980.345(d)(1), contained on the credit history except for those involving a delinquent Federal debt or previous Agency loan. For example, if the credit report indicates there have been incidents of more than one debt payment being more than 30 days late within the last 12 months, those incidents will not be investigated and considered evidence of an inadequate credit history if the FICO score is at least 660. As another example, if there is a non-Federal collection account outstanding, it too need not be investigated or considered, and there will be no requirement that evidence be furnished showing the collection account has been resolved or that arrangements for repayment have been made.

### (2) Applicants with FICO Credit Scores Between 620 and 659

When the FICO score falls between 620 and 659, the credit score alone is not sufficient for the underwriter to make an informed decision concerning credit history, and a full assessment of all aspects of the applicant's credit history is required. The lender should perform a complete underwriting analysis of the GRH loan to ensure eligibility based on RD Instruction 1980-D requirements. Any credit history waiver granted should be addressed by the underwriter and supported by plausible documentation in the loan file in accordance with RD Instruction 1980-D, §1980.345(d)(3). The underwriter should make certain that multiple high risk factors are not present.

### (3) Applicants with FICO Credit Scores Under 620

A FICO score under 620 means that the applicant would statistically have a high likelihood of default on their loan, and that there are likely to be adverse credit history issues that will have to be addressed in the underwriting analysis. It *does not mean* that every applicant with a FICO score under 620 is a poor credit risk and should be rejected. There are applicants with FICO scores under 620 that will pay their loans as agreed.

Applicants with credit scores under 620 should be carefully reviewed during the lender's underwriting analysis. Layered risk associated with the application, such as ratio waivers or credit history waivers, should be avoided unless strong supporting documentation substantiating the waiver exists. If an applicant is being considered for an adverse credit history waiver, a debt ratio waiver, or has questionable repayment income or job stability, the loan record must contain sufficient justification by the underwriter for approving the loan. The analysis should include an assessment of any compensating factors, or credit history explanations that establish the applicant's ability and willingness to repay the proposed loan as agreed. If the lender grants an adverse credit waiver, 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. Alternately, the lender must secure documentation evidencing that the delinquency arose from a justifiable dispute related to defective goods or services.

## SUMMARY:

FICO credit scores are an indicator of default risk, and can be very effectively used as a tool for underwriter evaluations of home mortgage loan applications. Credit scores help underwriters understand the strength of an applicant's credit history and can help to identify those applicants that may require careful underwriting attention. However, FICO scores should never be used in isolation or as the sole basis for a GRH loan underwriting decision. GRH loan applications that are rejected by lenders based on underwriting risk should be rejected based on underwriting criteria established in RD Instruction 1980-D, such as lack of repayment ability, lack of adequate and dependably available income, inadequate credit history, or collateral that does not meet the required standards.

### Lender Monitoring

On an ongoing basis, Agency field staff should monitor originating lenders for adherence to GRH loan underwriting requirements, including the standards outlined in this AN. Field staff conducting lender origination monitoring reviews should pay special attention to credit scores when reviewing first year delinquencies and early defaults. For portfolio monitoring purposes, credit scores will be captured in the future for all GRH loans.

# Homebuyer Education

Homebuyer education is an important aspect of mortgage lending for all lenders. It is increasingly important that homebuyers in the Guaranteed Rural Housing loan program have all of the tools available to them to be successful.

Lenders will provide homebuyer education to all applicants. USDA Rural Development **strongly** encourages all lenders to require homebuyers to attend a homebuyer education class when it is available in the area. When an originating lender's delinquency rate exceeds the national GRH delinquency rate, Rural Development will review with the lender the requirement of having applicants attend a class.

Lenders may have the option to provide the homebuyer education in the form of requiring the applicant to complete one of the homebuyer education workbooks or to require the applicant to attend a homebuyer education class. If a lender is not aware of the local availability of homebuyer education classes, they may use the local Consumer Credit Counseling Service (CCCS) or one of the counselors listed on the web site for the Department of Housing and Urban Affairs (HUD). The website address is as follows:

[www.hudhcc.org/agencies/texas.txt](http://www.hudhcc.org/agencies/texas.txt)

## Maximum Loan Amounts

Due to recent statutory changes to Section 502(h) of the Housing Act of 1949, USDA Rural Development **no longer uses the HUD 203(b) loan limitations** for the Guaranteed Rural Housing program.

Maximum loan amounts for the GRH program will be dictated by the applicants' income and repayment ability.

# Refinancing

Existing RHS Single Family Housing Guaranteed Loans and RHS Section 502 Direct Loans can be refinanced with a GRH loan.

The intent is to give existing GRH and Section 502 Direct borrowers with satisfactory payment histories, the opportunity to benefit from a lower interest rate.

- ◆ GRH loans may not be used as a loss mitigation measure for non-performing loans.
- ◆ An approved GRH lender must make the loan.
- ◆ 30 year term
- ◆ Fixed interest rate that is less than the rate of the loan being refinanced. No interest rate buydowns.
- ◆ Loan secured by same property as original loan and security must be owner occupied.
- ◆ Maximum loan amount cannot exceed the loan balance plus the USDA guarantee fee of .05%, reasonable and customary closing Costs, and funds for real estate and property insurance escrow.
- ◆ Any existing secondary financing must be subordinate to the new first lien.
- ◆ Applicants are not eligible to receive “cash out” from the refinancing transaction.
- ◆ Loans are permissible for properties in areas that have been determined to be non-rural since the existing loan was made.
- ◆ Additional borrowers may be added and existing borrowers may be deleted from the loan.
- ◆ RD Form 1940-22, categorical Exclusion Checklist” is not required.



Texas Rural Development

## GRH Refinancing Chart

	<b>Existing GRH to New GRH</b> No cash out except for 0.5% guarantee fee	<b>Existing GRH to New GRH</b> Cash out to pay actual closing costs and/or the 0.5% guarantee fee	<b>Direct 502 to New GRH</b> Cash out to pay actual closing costs and/or the 0.5% guarantee fee
<b>Maximum Loan Amount</b>	0.5% over current principal balance	100.5% LTV	100.5% LTV
<b>Amount of RD Guarantee Fee</b>	0.5%	0.5%	0.5%
<b>Income Compliance with RD Inst. 1980-D</b>	Yes	Yes	Yes
<b>New Appraisal</b>	No	Yes	Yes
<b>RD / HUD Inspections</b>	No	No	No
<b>Repairs Required</b> (Repairs cannot be financed into loan)	N/A	If required by the appraiser to correct safety issues.	If required by the appraiser to correct safety issues.
<b>RMCR or Tri-Merged Credit Report</b>	Yes	Yes	Yes
<b>Income Compliance &amp; Verification</b> (Full Doc. or Alt. Doc.)	Yes	Yes	Yes
<b>Underwriter's Approval</b> (with ratio waivers or credit waivers, as applicable)	Yes	Yes	Yes
<b>Form RD 1980-21 and Form AD-1048</b>	Yes	Yes	Yes
<b>Fully Completed Form 1003 &amp; 1008</b>	Yes	Yes	Yes
<b>Refinance of Other Debts</b> (RD or GRH loans only)	No	No	No
<b>Interest Rate</b> (No FNMA or VA rate guidelines apply)	Must be less than the borrower's current rate.	Must be less than the borrower's current rate.	Must be less than the borrower's current rate.
<b>Loan Terms</b>	30 Years	30 Years	30 Years
<b>Payoff Information</b>	Borrower's current lender	Borrower's current lender	Centralized Service Center 800-414-1226

# PROPERTY ELIGIBILITY

Property requirements can be found in RD Instruction  
1980-D, Section 1980.340 & 1980.341

# New or Existing Dwellings

GRH loans may be used to purchase *new or existing* dwellings located in eligible *rural areas*.

**Rural areas** are defined as open country, towns with a population of 10,000 or less, or cities or towns with populations not exceeding 20,000 that are **not** located within a Metropolitan Statistical Area (MSA). Maps that outline the eligible rural area for each of the 254 counties within the state of Texas are available – please contact the Single Family Housing at (254) 742-9770 for more information or visit

[www.rurdev.usda.gov/tx/eligible.htm](http://www.rurdev.usda.gov/tx/eligible.htm)

**Newly constructed dwellings** are those which are less than 1 year old. Lenders must obtain documentation and certify to Rural Development that the property meets the requirements of the **2000 International Residential Code (IRC) and the National Electric Code (NEC)**.

Requirements for new construction can be found in RD Instruction 1980-D, Section 1980.340 (b).

**Existing dwellings** are those which are more than 1 year old. Those dwellings must meet the requirements of the HUD Handbooks 4150.2 and the Rural Development Thermal Performance Requirements as prescribed in unnumbered letter dated April 21, 2003. (Copy on page 57 of this guide)

Requirements for existing dwellings can be found in RD Inst. 1980-D, Section 1980.313 (a-h).

**Sites** for existing or newly constructed dwellings cannot have a value which exceeds 30 percent of the total value of the property. Remember, the property cannot have income producing aspects or facilities.

**EXISTING AND NEWLY CONSTRUCTED DWELLINGS FINANCED WITH GRH LOANS CANNOT HAVE IN-GROUND SWIMMING POOLS OR INCOME PRODUCING FACILITIES.**



United States Department of Agriculture  
Rural Development

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JUN 20 2003

**TO:** All Offices  
USDA Rural Development, Texas

**FROM:** Bryan Daniel   
State Director  
USDA Rural Development, Temple

**SUBJECT:** Section 502 and 504 Eligible Rural Areas

The purpose of this unnumbered letter is to identify eligible rural areas with populations between 10,000 and 20,000. It replaces the unnumbered letter dated June 12, 2002. In addition to other eligible rural areas, Field Offices are responsible for providing housing assistance in the towns listed on the attached Exhibit A. In Chapter 5 of HB-1-3550, (Field Office Handbook) the definition of a rural area includes:

Open country that is not part of or associated with an urban area; or any town, village, city, or place (including the immediately adjacent densely settled area) that is not part of or associated with an urban area, and that:

- Is rural in character with a population of less than 10,000; or
- Is not contained within a Metropolitan Statistical Area (MSA) and has a serious lack of mortgage credit with a population between 10,000 and 20,000.

If an area was classified as rural prior to October 1, 1990, even if it is within an MSA, it may be still considered rural as long as it: (1) has a population between 10,000 and 25,000 and (2) is rural in character. This designation can remain effective through receipt of census data for the year 2010.

Attachment A lists towns in Texas that meet the rural area requirements of HB-1-3550 (5.3). Leveraged Lenders and applicants should be made aware that these towns are eligible rural areas for the Section 502 and Section 504 loan program.

Please contact Leon Carey, Rural Housing Programs, if you have any questions.

Attachment

**EXPIRATION DATE:**  
May 31, 2004

**FILING INSTRUCTIONS:**  
Rural Housing Programs

## Texas Eligible Areas

With Population between 10,000-20,000 Population:

Alice	Jacksonville
Andrews	Kerrville
Angleton	Kilgore
Athens	Lamesa
Bay City	Levelland
Beeville	Lockhart
Belton	Mineral Wells
Big Spring *	Mount Pleasant
Borger	Palestine
Brenham	Pampa
Brownfield	Plainview *
Brownwood	Pecos
Canyon	Port Lavaca
Dumas	Snyder
Eagle Pass	Sulphur Spring
El Campo	Sweetwater
Gainesville	Taylor
Gatesville	Uvalde
Henderson	Vernon
Hereford	Vidor

\*Special exception for towns under 25,000

# Required Items for Newly Constructed Dwellings

Lenders must obtain the following items for newly constructed dwellings:

- Occupancy certificate if available or final inspection report
- Termite treatment certification
- Health Authority approval on water wells and septic systems if applicable
- An approved 10-Year Warranty. [www.rurdev.usda.gov/tx/forms/TenYearWarranty.pdf](http://www.rurdev.usda.gov/tx/forms/TenYearWarranty.pdf)  
In lieu of a 10-year warranty, the builder may provide a 1 year warranty
- If a 1 year warranty is obtained, the lender is responsible for insuring that a qualified inspector has made the first, second, and final inspections at the following intervals:
  - I. When concrete for footings/foundation is ready to be placed, but prior to back filling;
  - II. When the shell is closed in, but the plumbing, electrical, mechanical work are still exposed and;
  - III. When construction is complete, prior to occupancy.
- Plans and specifications which have been **reviewed** and **certified** to meet the requirements of the 2000 International Residential Code (IRC) and National Electric Code (NEC). Lenders may use Form RD 1924-25 "Plan Certification" or a comparable plan certification form (i.e. Form HUD-92541, "Builders Certification of Plans, Specifications and Site").

## Acceptable plans certifiers are:

A registered professional building designer who is certified by the American Institute of Building Design (AIBD), or;

Licensed architects, or;

Professional Engineers, or;

A plan service that provides drawings and specifications that have been certified as meeting the IRC, or;

10-Year Warranty Builders, or;

Builders who have been approved by HUD-FHA to self-certify their plans

PLAN CERTIFICATION

**SAMPLE**

(Property Name/Applicants Name and Case Number)		Anita House	
(Property Address)	111 Easy Street	(City)	Paradise
(County)	Horizon	(State)	Texas

BUILDING TYPE:  Single Family  Multi-Family  
PLANS:  Original  Modifications

I, John Boy being a (Chose One)  
(type or print) (licensed architect, engineer, or authorized building official, etc.)  
in the State of Texas, hereby certify that I have reviewed:

- the plans and specifications dated 8/23/02 prepared by Acme & Assoc. Architects  
(name of firm or individual)  
for the above property
- the thermal performance plans, specifications and calculations dated \_\_\_\_\_  
prepared by \_\_\_\_\_ (name of firm or individual) for the above property
- the seismic design (plans and specifications) dated \_\_\_\_\_ prepared by \_\_\_\_\_  
(name of firm or individual) for the above property
- modifications listed below, that have been clearly indicated on the drawings and specifications  
dated \_\_\_\_\_ prepared by \_\_\_\_\_ (name of firm or individual) and certified by \_\_\_\_\_  
(name of firm or individual) and related to the above property

MODIFICATIONS \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

According to the Paperwork Reduction Act 1995, an agency may not conduct or sponsor, and a person is not required to respond to a collection of information unless it displays a valid OMB control number. The valid OMB control number for this information collection is 0575-0042. The time required to complete this information collection is estimated to average 10 minutes per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information.

Based upon this review, to the best of my/our knowledge, information, and belief, these documents comply with the:

2000 International Residential Code (IRC) for One-and-Two Family Dwellings and  
(name and edition of the applicable development standard)

National Electric Code (NEC)  
(name and edition of the applicable energy standards/requirements in accordance with RD Instruction 1924-A, Exhibit D)

designated as the applicable Rural Development or Farm Service Agency development standards for this project.

I understand the purpose of this certification is to induce United States Government to finance the construction of the above project and plan. I further understand that false certification constitutes a violation of 18 U.S.C. Section 1001 punishable by fine and/or imprisonment and, in addition, may result in debarment from participating in future government programs.

_____	8/23/02
(Signature)	(Date)
John Boy	_____
(Type or print name)	(Professional Registration No.)
_____	_____
(Title)	(Expiration Date if applicable)
123-456-7890	
(Area Code + Telephone Number)	

# TERMITE REQUIREMENTS FOR NEW CONSTRUCTION

Texas USDA Rural Development requires protection from termites on newly constructed dwellings in the same manner as does U.S. Department of Housing and Urban Development (HUD). HUD requires the property to meet the subterranean termite protection requirements in sections R323 and R324 of the International Residential Code (IRC). Texas Rural Development will accept revised Form NPCA-99a and 99b to show that treatment against termites has been provided for new construction.

All chemical soil treatments, bait systems and chemical wood treatment must be approved by the Environmental Protection Agency (EPA). In accordance with HUD requirements as outlined in Mortgagee Letter **2001-04**, **one** of the following methods of termite protection for new construction **must be used**:

1. Soil treatment, NPCA-99b, PLUS one year guarantee NPCA-99a;

**OR**

2. Bait system/Wood PLUS NPCA-99a;

**OR**

3. Pressure preservatively treated wood that meets the Standards of the American Wood-Preserver's Association (AWPA) for all sills or plates that rest on concrete or masonry exterior walls. If using pressure preservatively treated wood, on Form NPCA-99a, under "Type of Treatment", check the box next to "wood" and add the Statement: "Complies with Mortgagee Letter 2001-04 for use of preservatively treated wood.

Lenders will provide Rural Development with Form NPCA-99a and NPCA-99b to document termite treatment/protection.

As this requirement follows the same guidelines that are required by HUD, lenders may obtain copies of HUD written guidance on the Internet at:

[www.hudclips.org/sub\\_nonhud/html/shortcut.htm](http://www.hudclips.org/sub_nonhud/html/shortcut.htm)

Click on "Letters" for Mortgagee Letter 2001-04

# Subterranean Termite Treatment Builder's Certification and Guarantee

This form is completed by the builder.

This form is submitted for proposed (new) construction cases when treatment for prevention of subterranean termite infestation is specified by the builder or architect, or required by the lender, FHA or VA. Treatment for the purposes of this form means application of soil termiticide, and/or wood treatment, and/or installation of bait systems. Any treatment must be done in accordance with applicable federal and state requirements.

This form is to be completed and issued by the builder to the buyer. It is not to be considered as a waiver of, or in place of, any legal rights or remedies that the buyer may have against the builder.

FHAVA Case No.: \_\_\_\_\_

Location of Structure(s) (Street Address, or Legal Description, City, State and Zip): \_\_\_\_\_

Buyer's Name: \_\_\_\_\_

The undersigned builder hereby certifies that a state licensed or otherwise authorized pest control company (where required by state law) was contracted to treat the property at the location referenced above for subterranean termites. The builder further certifies that the contract with the pest control company required the treatment materials and methods used to be in conformance with all applicable state and federal requirements. All work required by the contract has been completed. Where not prohibited by applicable state requirements, the buyer, for an additional fee payable to the pest control company, may extend the protection against subterranean termites. Contact the pest control company listed on the attachment for further information.

The builder hereby guarantees that, if subterranean termite infestation should occur within one year from the date of final closing, the builder will ensure that a licensed or otherwise state authorized pest control company (where required by state law) or other qualified licensed pest control company will further treat as necessary in the infested area to control infestations in the structure. This further treatment will be without cost to the buyer. If permitted by state law, the buyer may contract directly, at the buyer's expense, with a pest control company to inspect the property on a periodic basis and/or use EPA registered products to control the infestation. The builder will not be responsible for guaranteeing such additional treatment. The builder further agrees to repair all damage by subterranean termites within the one year builder's warranty period. This guarantee does not apply to additions or alterations that are made by the buyer which affect the original structure or treatment. Examples include, but are not limited to, landscape and mulch alterations which disturb the treated area and create new subterranean termite hazards, or interfere with the control measures.

If within the guarantee period the builder questions the validity of a claim by the buyer, the claim will be investigated by an unbiased expert mutually agreeable to the buyer and builder. The report of the expert will be accepted as the basis for disposition of the case. The non-prevailing party will pay the cost of any inspections made to investigate the claim. For further information contact your state structural pest control regulatory agency.

Type of Treatment:     Bait System             Wood             Soil (NPCA-99b required)

Note: Appropriate treatment record must be attached and listed

Attachments: \_\_\_\_\_

Builder's Company Name: \_\_\_\_\_

Phone No.: (    ) \_\_\_\_\_

Authorized Signature: \_\_\_\_\_

Date: \_\_\_\_\_

Warning: HUD will prosecute false claims and statements. Conviction may result in criminal and/or civil penalties. (18 U.S.C. 1001, 1010, 1012; 31 U.S.C. 3729, 3802)

**Consumer Maintenance Advisory regarding Integrated Pest Management for Prevention of Wood Destroying Insects**  
Information regarding prevention of wood destroying insect infestation is helpful to any property owner interested in protecting the structure from infestation. Any structure can be attacked by wood destroying insects. Periodic maintenance should include measures to minimize possibilities of infestation in and around a structure. Factors which may lead to infestation from wood destroying insects include foam insulation at foundation, earth-wood contact, faulty grade, firewood against structure, insufficient ventilation, moisture, wood debris in crawl space, wood mulch, tree branches touching structures, landscape timbers, and wood rot. Should these or other such conditions exist, corrective measures should be taken by the owner in order to reduce the chances of infestations by wood destroying insects, and the need for treatment.

original and one copy of this guarantee are to be prepared by the builder and sent to the lender. The lender provides one copy to the buyer closing and includes a copy in the VA loan package or HUD insurance case binder. The builder sends one copy to the licensed pest control company which performed the treatment.

Attached is a copy of the state authorized pest control company's service record.

THIS FORM MAY NOT BE ALTERED.

Forms VA-26-8375 and HUD-92052 are obsolete after 5/31/97.

★ U.S. GOVERNMENT PRINTING OFFICE: 2000 355-085/61737

Form NPCA-99a  
(1/99)

# Required Items for Existing Dwellings

- ✓ A "Valuation Conditions - Notice to the Lender, HUD -92564-VC" (VC Form) Prepared in accordance with HUD Handbook 4150.2 by an appraiser designated on the FHA register. USDA Rural Development loans are not assigned a case number. The appraiser will provide the property address in the space provided for the case number on the (VC Form).

## OR

A home inspection report prepared by a home inspector deemed qualified by the lender may be obtained. The home inspection report must contain information substantially similar to that covered by the VC Form, specifically including:

- Structure - Roof surface and foundation
  - Mechanical - Plumbing, electrical, and HVAC
  - Any readily observable site hazards or drainage problems
  - Any readily observable evidence of wood infestation
  - Any repairs necessary for the dwelling to be structurally sound, functionally adequate and in good repair
- ✓ Inspections performed by an inspector deemed to be qualified by the lender to inspect the property for compliance with RD Texas unnumbered letter dated April 21, 2003 on Thermal Performance Requirements. (A copy is on Pg.57) It is suggested that lenders use the USDA Rural Development "Addendum to Form HUD-92564- VC, Valuation Conditions - Notice to The Lender" to document the required inspection certification.
  - ✓ Termite report (NPCA-1 "Wood Destroying Insect Infestation Inspection Report") If an FHA-designated appraiser does not require a pest (termite) inspection when completing the VC Form, then no further action is required.
  - ✓ If on a private water well and/or septic system, inspections performed by an inspector deemed to be qualified by the lender to inspect those systems for compliance with local and/or State regulations. A VC Form completed by an FHA designated appraiser meets the requirements of RD Instruction 1980-D.

Lender must know their inspectors' qualifications. Although not required to be presented with every application, lenders must be prepared to document the inspectors' qualifications if requested by USDA Rural Development.

## NOTICE TO THE LENDER

All required repairs must be completed in a professional manner, in compliance with HUD's guidelines and satisfied prior to closing. The lender is responsible for coordinating repairs. A professionally licensed, bonded, registered engineer, licensed home inspector or appropriately registered/licensed trades person, as applicable, must provide documentation that all deficiencies have been acceptably corrected upon completion of repairs.

### SITE CONSIDERATIONS

#### VC-1 SITE HAZARDS AND NUISANCES

Check the appropriate response for *readily observable* evidence of hazards. Hazards, as defined below, are conditions that endanger the health and safety of the occupants and/or the marketability of the property. Use these criteria to determine the extent of the hazard. Please refer to HUD Handbook 4150.2 Section 2-2 for unacceptable locations and the protocol in Appendix D of the Handbook for further guidance. If the required component is not visible during the site visit, provide a detailed comment.

Provide a description of yes responses on Page 4:

- a. Surface evidence of subsidence/sink holes  
( ) yes
- b. Operating oil or gas wells within 300 feet of existing construction  
( ) yes
- c. Operating oil or gas wells within 75 feet of new construction  
( ) yes
- d. Abandoned oil or gas well within 10 feet of new/existing  
( ) yes
- e. Readily observable evidence of slush pits  
( ) yes
- f. Excessive noise or hazard from heavy traffic area  
( ) yes
- g. New/proposed construction in airport clear zone  
( ) yes
- h. High-pressure gas or petroleum lines within 10 feet of property  
( ) yes
- i. Overhead high voltage transmission lines within engineering (designed) fall distance  
( ) yes
- j. Excessive hazard from smoke, fumes, offensive noises or odors  
( ) yes
- k. New/proposed construction in Special Flood Hazard Areas without LOMA or LOMR  
( ) yes
- l. Stationary storage tanks with more than 1000 gallons of flammable or explosive material.  
( ) yes

#### PROPERTY CONSIDERATIONS

Mark "YES" for any *readily observable* deficiency noted below. Each "YES" constitutes a limiting condition on the appraisal. Each condition requires repair or further inspection. These conditions must be satisfied prior to closing for the mortgage to be eligible for FHA mortgage insurance. Please refer to HUD Handbook 4150.2, Section 3-6 for guidance on HUD's General Acceptability Criteria. Also, refer to the protocol in Appendix D of the Handbook for repair and inspection requirement parameters.

#### VC-2 SOIL CONTAMINATION

Check the appropriate response for evidence of environmental contamination

Provide a description of yes responses on Page 4:

- a. On-site septic shows observable evidence of system failure  
( ) yes ( ) no
- b. Surface evidence of an Underground Storage Tank (UST)  
( ) yes ( ) no
- c. Proximity to dumps, landfills, industrial sites or other locations that could contain hazardous materials  
( ) yes ( ) no
- d. Presence of pools of liquid, pits, ponds, lagoons, stressed vegetation, stained soils or pavement, drums or odors  
( ) yes ( ) no

#### VC-3 GRADING AND DRAINAGE

Check the appropriate response for evidence of topographical problems.

Provide a description of yes responses on Page 4:

- a. Grading does not provide positive drainage from structure  
( ) yes ( ) no
- b. Standing water proximate to structure  
( ) yes ( ) no

#### VC-4 WELL, INDIVIDUAL WATER SUPPLY AND SEPTIC

Check the appropriate response with regard to individual wells and septic system.

Provide a description of yes responses on Page 4:

- a. Property lacks connection to public water\*  
( ) yes ( ) no
- b. Property lacks connection to a public/community sewer system  
( ) yes ( ) no

\*Lender will require water testing for "yes" response.

NOTE: Connection should be made to public or community water/sewage disposal system. Estimate distance to sewer or water hook-up and whether hook-up is practical.

#### VC-5 WOOD DESTROYING INSECTS

Check the appropriate response for evidence of wood infestation

Provide a description of yes responses on Page 4:

- a. Structure and accessory buildings are ground level and/or wood is touching ground  
( ) yes ( ) no
- b. The house and/or other structures within the legal boundaries of the property show obvious evidence of active termite infestation  
( ) yes ( ) no

**VC-6 Private Road Access And Maintenance**  
*Check the appropriate response for evidence of Private Road Access and maintenance problems. Provide a description of yes responses on Page 4:*

- a. Property inaccessible by foot or vehicle  
( ) yes ( ) no
- b. Property accessible only by a private road or drive\*  
( ) yes ( ) no
- c. Property is not provided with an all-weather surface (gravel is acceptable).  
( ) yes ( ) no

\*In all cases where a private road exists, submit evidence that \_\_\_\_\_

(name of road)

is protected by a permanent recorded easement (non-exclusive, non-revocable roadway, driveway easement without trespass from the property to a public street/road) and that there is an acceptable maintenance agreement recorded on the property.

Provide a detailed description of the road's condition:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**VC-7 STRUCTURAL CONDITIONS**

*Check the appropriate response for evidence of structural condition problems. Provide a description of yes responses on Page 4:*

Floor Support Systems

- a. Significant cracks  
( ) yes ( ) no
- b. Evidence of water/leakage or damage  
( ) yes ( ) no
- c. Rodent Infestation  
( ) yes ( ) no

Framing/Walls/Ceiling

- d. Significant cracks  
( ) yes ( ) no
- e. Visible holes in exposed areas that could effect structure  
( ) yes ( ) no
- f. Significant water damage  
( ) yes ( ) no

Attic

- g. Evidence of holes  
( ) yes ( ) no
- h. Support structure not intact or damaged  
( ) yes ( ) no
- i. Significant water damage visible from interior  
( ) yes ( ) no
- j. No ventilation by vent, fan or window  
( ) yes ( ) no

**VC-8 FOUNDATION**

(Appraiser must have full access to these areas)  
*Check the appropriate response for evidence of foundation/basement or crawl space problems. Provide a description of yes responses on Page 4:*

Foundation/Basement

- a. Inadequate access  
( ) yes ( ) no
- b. Evidence of significant water damage  
( ) yes ( ) no

- c. Significant cracks or erosion in exposed areas that could effect structural soundness  
( ) yes ( ) no

Crawl Space

- d. Inadequate Access  
( ) yes ( ) no
- e. Space inadequate for maintenance and repair (<18 inches)  
( ) yes ( ) no
- f. Support beams not intact  
( ) yes ( ) no
- g. Excessive dampness or ponding of water  
( ) yes ( ) no

**VC-9 ROOFING**

*Check the appropriate response for evidence of all roofing problems*

*Provide a description of yes responses on Page 4:*

- a. Does not cover entire house  
( ) yes ( ) no
- b. Evidence of deterioration of roofing materials  
( ) yes ( ) no
- c. Roof life less than two years\*  
( ) yes ( ) no
- d. Holes  
( ) yes ( ) no
- e. Signs of leakage observable from ground (i.e., missing tiles)  
( ) yes ( ) no
- f. Flat Roof\*\*  
( ) yes ( ) no

\*HUD/FHA requires that the roof have at least 2 years remaining life. If the roof has less than 2 years remaining life, then the appraiser must call for re-roofing or repair. The condition must clearly state whether the subject is to be repaired or re-roofed. FHA will accept a maximum of 3 layers of existing roofing. If more than 2 layers exist and repair is necessary, then all old roofing must be removed as part of the re-roofing.

\*\*All flat roofs require inspection.

**VC-10 MECHANICAL SYSTEMS**

(All utilities must be turned on at time of appraisal, if possible)

*Check the appropriate response for evidence of mechanical system problems. Provide a description of yes responses on Page 4:*

Furnace/Heating System

- a. Unit does not turn 'On'  
( ) yes ( ) no
- b. Warm air is not emitted  
( ) yes ( ) no
- c. Unusual or irregular noises are heard  
( ) yes ( ) no
- d. Smoke or irregular smell is emitted  
( ) yes ( ) no
- e. Unit shuts down prior to reaching desired temperature  
( ) yes ( ) no
- f. Significant holes or deterioration on the unit(s)  
( ) yes ( ) no

Air Conditioning (central)

- g. Unit does not turn 'On'  
( ) yes ( ) no
- h. Cold air is not emitted  
( ) yes ( ) no
- i. Irregular noises are heard

( ) yes ( ) no

- j. Smoke or irregular smell is emitted  
( ) yes ( ) no
- k. Unit shuts down prior to reaching desired temperature  
( ) yes ( ) no
- l. Significant holes or deterioration on the unit(s)  
( ) yes ( ) no

Electrical System

- m. Electrical switches do not turn 'on' or 'off' (check representative sample)  
( ) yes ( ) no
- n. Outlets do not function (check representative sample)  
( ) yes ( ) no
- o. Presence of sparks or smoke from outlet(s)  
( ) yes ( ) no
- p. Exposed wiring visible in living areas  
( ) yes ( ) no
- q. Frayed wiring  
( ) yes ( ) no

Plumbing System

Toilet

- r. Toilets do not function  
( ) yes ( ) no
- s. Presence of leak(s)  
( ) yes ( ) no

Leaks

- t. Structural damage under fixtures  
( ) yes ( ) no
- u. Puddles present  
( ) yes ( ) no

Sewer System

- v. Observable surface evidence of malfunction  
( ) yes ( ) no

Sinks

- w. Basin or pipes leak  
( ) yes ( ) no
- x. Water does not run  
( ) yes ( ) no

Water

- y. Significant drop or limitation in pressure  
( ) yes ( ) no
- z. No hot water  
( ) yes ( ) no

**VC-11 OTHER HEALTH AND SAFETY DEFICIENCIES**

Check the appropriate response for evidence of health and safety deficiencies.

Provide a description of yes responses on Page 4:

- a. Multiple Broken windows  
( ) yes ( ) no
- b. Broken or missing exterior stairs  
( ) yes ( ) no
- c. Broken or missing exterior doors  
( ) yes ( ) no
- d. Inadequate/blocked entrances or exits  
( ) yes ( ) no
- e. Steps without handrails  
( ) yes ( ) no
- f. The mechanical garage door does not reverse or stop when meeting reasonable resistance during closing  
( ) yes ( ) no
- g. Please identify location of all health and/or safety deficiencies, and note others not included in this or any other VC on the comment page

**VC-12 LEAD BASED PAINT HAZARD**

For any home built prior to 1978, check for evidence of defective paint surfaces, including: peeling, scaling or chipping paint.

Provide a description of yes responses on Page 4:

- a. Evidence on interior  
( ) yes ( ) no
  - b. Evidence on exterior  
( ) yes ( ) no
- Year built \_\_\_\_\_

If the home was built before 1978, this may indicate a lead paint hazard. For all FHA insured properties, the seller is required to correct all defective paint in or on dwelling units built before January 1, 1978 in accordance with 24 CFR Part 35.

**VC-13 CONDOMINIUMS AND PLANNED UNIT DEVELOPMENTS (PUD)**

Provide a description of yes responses on Page 4:

- a. This project is not on FHA's approval list  
( ) yes ( ) no
- The property does not meet owner-occupancy standards  
( ) yes ( ) no
- This property does not meet completion standards  
( ) yes ( ) no

**ADDENDA**

**A. Provide the current full/market assessed value:**

\$ \_\_\_\_\_

**B. Provide a summary of estimated repair costs:**

\$ \_\_\_\_\_

Please attach any additional information/reports and give number of attached pages.

Public reporting burden for the collection of information is estimated to average 30 minutes to complete the Comprehensive Valuation Package. This includes the time for reviewing the associated Handbook and reporting the data. This does not include the requisite market research or the appraisal process. This agency may not collect this information, and you are not required to complete this form unless it displays a currently valid OMB control number.

Privacy Act Notice: This information is required for the U.S. Department of Housing and Urban Development to endorse a single family mortgage and is used for underwriting purposes. The collection of this information is necessary to comply with HUD's Home Buyer Protection Plan. The information may be made available to a federal agency for review. This information is not confidential and will be made available to the public.





# Rural Development Guaranteed Loan Program

## Addendum to Form HUD-92564-VC, Valuation Conditions - Notice To The Lender

Property Address: \_\_\_\_\_

The following items have been checked as part of the inspection requirements of the USDA Rural Development Guaranteed Loan Program.

ITEM	YES	NO	N/A
Alternative I - Minimum Attic Insulation of (R-30) and operable storm or insulated windows.			
Alternative II - Minimum Attic Insulation of (R-38) and solar screens on all windows. Documentation supporting the use of this alternative is included as required in RD TX AN No. 558.			
House on blocks or pier & beam contains perimeter insulation or a minimum floor insulation of R-13.			
The private or individual water supply is adequate and meets the Department of Health's or regulatory authority's requirements.			
The individual wastewater system has been inspected by the Department of Health or regulatory authority and has been determined to be acceptable.			

### CERTIFICATIONS:

The unit is cost effective including utility and maintenance for this area (1980.313 (g)). The dwelling meets the requirements of HUD Handbook 4150.2

### COMMENTS/REQUIRED REPAIRS

\_\_\_\_\_  
\_\_\_\_\_

\_\_\_\_\_  
**Inspector's Signature**

\_\_\_\_\_  
**License #**

\_\_\_\_\_  
**Date**

### CONCURRENCE

I have reviewed the above report and concur with the inspector's assessment. Any repairs necessary for the dwelling to be structurally sound, functionally adequate and in good repair have been competed. If a VC Form was completed, I certify that it was completed by an appraiser from the FHA register.

\_\_\_\_\_  
**Lender's Authorized Signature**

\_\_\_\_\_  
**Date**



United States Department of Agriculture  
Rural Development

101 South Main Street · Suite 102, Federal Building · Temple, Texas 76501  
Voice: (254) 742-9770 · Fax: (254) 742-9735 · TDD: (254) 742-9712

April 21, 2003

**TO:** All Offices  
USDA Rural Development, Texas

**FROM:** Bryan Daniel  
State Director   
USDA Rural Development, Temple

**SUBJECT:** Thermal Performance Requirements for Existing Housing  
Guaranteed Rural Housing (GRH) and Section 502 Direct  
Single Family Housing (SFH) Loan Program

The purpose of this unnumbered letter is to clarify the thermal performance requirements for existing housing financed through the Section 502 Guaranteed Rural Housing (GRH) and Direct SFH loan programs. This unnumbered letter replaces Rural Development Texas AN No. 558, which expired on November 30, 2002.

USDA Rural Development (Direct loans) and the lender (GRH loans) will be required to comply with Alternative I in meeting the USDA Rural Development thermal requirements for existing dwellings. If the inclusion of items necessary to meet the requirements is not cost justified, USDA Rural Development employees or the lender may comply with Alternative II or III.

ALTERNATIVE I. In order to comply with the requirements of RD Instruction 1924-A, the first alternative will be to include a minimum of R-30 insulation in the attic, operable storm or double insulated windows, storm doors, and insulation in the subfloor if the home has a crawl space. The subfloor will have an insulation value of R-19 in the northern part of the state or R-13 if located in the southern part of the state. The cost of these improvements will be included in the proposed loan if it is supported by the appraisal.

ALTERNATIVE II: If the file contains documentation (cost estimates, as-improved appraisal, etc.) that the inclusion of operable storm windows and subfloor insulation is not cost justified and the cost of the additions cannot be included in the amount of the loan because the appraisal does not support the additional amount, the property can meet thermal requirements with the following compensating measures:

- 1) USDA Rural Development or lenders will require that the attic insulation be increased to at least R-38 and solar screens be installed on all windows, and

EXPIRATION DATE:  
March 31, 2004

FILING INSTRUCTIONS  
Rural Housing Programs

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

- 2) In lieu of subfloor insulation for homes with crawl spaces, it is required that an insulated perimeter enclosure or foundation wall be installed around the perimeter of the entire house. This requirement will include all foundation wall area, including header joists.

ALTERNATIVE III: The applicant or the lender may employ an engineer to complete calculations on the dwelling, which consider the existing features and their compliance with the requirements of RD Instruction 1924-A. The engineer's report indicating compliance will be included in the loan file or they may submit energy audits performed by the local utility company to compare utility costs on homes with storm windows, R-30 insulation in the attic, and subfloor insulation to the utility costs on those homes without the extra energy features. If the audits indicate that the difference in the utility bills is not significant enough to justify the additional cost of installing storm windows, etc., the information will be reviewed by USDA Rural Development and waivers may be given on a case-by-case basis. Window films or window air barrier kits are not acceptable.

These requirements apply only to existing housing. For new construction, the applicant must obtain and submit plans and specifications which have been certified that the dwelling will meet the requirements of the 2000 International Residential Code (IRC) for One- and Two- Family Dwellings and the National Electric Code (NEC). Required building plans and specifications shall be in accordance with RD Instruction 1924-A, Exhibit C. Form RD 1924-25, "Plan Certification" should be completed and signed by the plan certifier for Section 502 Direct loans. Acceptable plan certifiers are listed in 1924.5 (f)(1)(iii) of RD Instruction 1924-A.

For GRH loans, the lender must submit only a certification that the plans and specifications have been reviewed and comply with the requirements of the 2000 International Residential Code (IRC) for One- and Two- Family Dwellings and the National Electric Code (NEC).

Local office employees will provide copies of this unnumbered letter to all approved GRH and Section 502 Direct leveraged loan lenders in their area. In addition to the filing instructions indicated on page one (1), a copy of this unnumbered letter will be placed in the State Supplements section of HB-1 3550.

Please contact Leon Carey or Daniel Torres, Rural Housing Programs, if you have any questions.

# Appraisals

Lenders are responsible for obtaining appraisals on the property being purchased. Appraisals must be completed by State certified appraisers. **IT IS NOT REQUIRED THAT LENDERS USE FHA APPRAISERS.** However, for existing homes, lenders may want to use FHA appraisers or appraisers who are familiar with HUD Handbook 4150.2. The appraisal can be completed just like an FHA appraisal except without a case number with an attached Valuation Condition (VC).

The purpose of the use of an FHA Appraiser or an appraiser familiar with HUD Handbook 4150.1. is that per RD Instruction 1980-D, Section 1980.345 (b)(1), inspections must be made to determine that the dwelling meets the current requirements of the HUD Handbook. Therefore, this allows the lender to certify as to this requirement without obtaining a home inspection report. The inspector must make a determination and document the property's compliance with the Rural Development Thermal Performance standards.

**REMEMBER,** lenders must use inspectors that they deem to be qualified. Lenders must know their inspectors' qualifications to make these required inspections.

**NOTE:** If storm windows and other repairs are known to be needed, lenders should notify their appraisers so that any additional value can be determined and reflected in the appraisal.

The attached RD AN No. 3934 (1980-D) provides guidance on acceptable appraisal forms and additional requirements for appraisals prepared in relation to SFH loans.

Appraisal requirements can be found in RD Instruction 1980-D, Section 1980.334.

TO: All State Directors  
Rural Development

ATTENTION: Rural Housing Program Directors, Guaranteed Rural Housing  
Specialists, Rural Development Managers, and Community  
Development Managers

FROM: Arthur A. Garcia      *(Signed by Arthur A. Garcia)*  
Administrator  
Rural Housing Service

SUBJECT: Acceptable Appraisal Forms  
Single Family Housing Guaranteed Loan Program (SFHGLP)

PURPOSE/INTENDED OUTCOME:

The purpose of this Administrative Notice (AN) is to announce that the SFHGLP now permits the lender to instruct its appraiser to use one of the following appraisal forms in relation to a SFH loan for, or refinance of a loan, secured by an owner-occupied one-family residential property:

- Uniform Residential Appraisal Report (URAR) (Freddie Mac Form 70/Fannie Mae Form 1004).
- Desktop Underwriter Quantitative Analysis Appraisal Report (Fannie Mae Form 2055).
- Loan Prospector Quantitative Analysis Appraisal Report (Freddie Mac Form 2055).
- Individual Condominium Unit Appraisal Report (Fannie Mae Form 1073, Freddie Mac Form 465) (for individual condominium units only).

Expanding the number and type of appraisal report forms will provide lenders with more flexibility and, in some cases, result in reduced closing costs for the loan applicant.

COMPARISON WITH PREVIOUS AN:

This AN replaces RD AN No. 3816 (1980-D), dated January 10, 2003, which expired on January 31, 2004.

EXPIRATION DATE:  
February 28, 2005

FILING INSTRUCTIONS:  
Preceding RD Instruction 1980-D

## BACKGROUND:

RD Instruction 1980-D, Section 1980.334(b)(1) states that the appraiser will use the most recent revision of the Uniform Residential Appraisal Report (URAR). The URAR has long been the industry standard for single-family residential mortgage appraisal reports.

During the late 1990's, both Freddie Mac and Fannie Mae developed, introduced, and began to evaluate more streamlined appraisal forms, including:

- Desktop Underwriter Quantitative Analysis Appraisal Report (Fannie Mae Form 2055).
- Loan Prospector Quantitative Analysis Appraisal Report (Freddie Mac Form 2055).

Form 2055 is very similar to the URAR except for the omission of the income and cost approaches to value. The mortgage industry and the residential real estate appraisal profession have found that these two approaches to value typically are not reliable if the proposed mortgage will be secured by an owner-occupied one-family residential property. This applies to both new and existing dwellings in most market areas.

Although Form 2055 was designed initially to be used only for mortgages processed using an automated underwriting system (AUS), both Freddie Mac and Fannie Mae expanded the use of this form and began accepting Form 2055 for manually underwritten (non-AUS) mortgages several years ago.

Industry experience has shown that, in most cases, Form 2055 provides all of the necessary appraisal information necessary to originate and underwrite a mortgage secured by an owner-occupied one-family residential property (including a unit in a condominium or PUD project).

The Individual Condominium Unit Appraisal Report (Fannie Mae Form 1073, Freddie Mac Form 465) may be used for one-family residential properties that are units in condominium projects.

## IMPLEMENTATION RESPONSIBILITIES:

Regardless of the appraisal form used, the appraiser must complete the following steps:

- Use the most recent revision of the form chosen to document the appraisal.
- Perform both an interior and exterior inspection of the subject property.
- Provide a description and analysis of the subject property, neighborhood, site, and improvements.
- Complete a sales comparison analysis including at least three (3) comparable properties, providing specific sales or financing concession information for the comparables.

- Develop the cost approach to value in cases in which it is requested by the lender, or considered by the appraiser to be a good indicator of value for the subject property. (As an example, the appraiser may believe that the cost approach is a good indicator of value if the dwelling is less than one year old or has been recently renovated.)
- Include an opinion of value for the site in all cases. If the site value is more than 30 percent of the total value of the property, the appraiser should provide opinions regarding whether the value of the site is typical for the area, and whether the site can be subdivided into two or more sites.
- Attach a narrative explanation supporting unusual adjustments.
- Include other comments, data, and exhibits if they are needed to adequately describe the subject property, document the analysis and valuation process, or support the appraiser's conclusions.
- Include clear, descriptive photographs (either in black and white or color) of the front, rear and street views of the subject property. Generally, photographs should be originals that are produced either by photography or electronic imaging.
- Include clear, descriptive photographs (either in black and white or color) of the front view for each comparable sale used in the completion of the appraisal. Generally, photographs should be originals that are produced either by photography or electronic imaging; however, copies of photographs from a multiple listing service or from the appraiser's file are acceptable if they are clear and descriptive.
- Provide an adequately supported estimate of market value.

#### SUMMARY:

The SFHGLP now permits the lender to instruct its appraiser to use any of the following appraisal forms in relation to a SFH loan for, or refinance of a loan secured by an owner-occupied one-family residential property:

- Uniform Residential Appraisal Report (URAR) (Freddie Mac Form 70/Fannie Mae Form 1004)
- Desktop Underwriter Quantitative Analysis Appraisal Report (Fannie Mae Form 2055)
- Loan Prospector Quantitative Analysis Appraisal Report (Freddie Mac Form 2055)
- Individual Condominium Unit Appraisal Report (Fannie Mae Form 1073, Freddie Mac Form 465) (for individual condominium units only).

Regardless of the appraisal form used, the loan file must contain clear and sufficient support for the underwriter's decisions regarding the security property and loan approval.

We encourage state offices to develop ways to distribute this AN to local appraisers. Developing an appraiser email list may be one way to share this information.

# FLOOD ZONES

It is USDA Rural Development policy to discourage lending in designated flood and mudslide areas. Loan guaranteed will NOT be issued in flood hazard areas unless there is no practical alternative. The lender is responsible for documenting the fact that there is no practical alternative. This determination must be substantiated with supporting documentation from the appraiser that there are a lack of affordable alternative sites. Adequate documentation will include a flood plain map of the community indicating the location of the flood plain and the property to be financed.

Dwellings and improvements located in flood hazard areas may be financed only if:

- The community has an approved flood plain area management plan, **and**;
- The dwelling location and construction plans/specifications for new buildings comply with an approved flood plain area management plan, **and**;
- The potential environmental impacts and feasible alternatives have been fully considered by USDA Rural Development, **and**;
- The first floor elevation is above the 100-year flood zone elevation (as evidenced by a survey).

If the dwelling is located in a flood/mudslide hazard area, flood insurance must be purchased by the homebuyer and maintained thereafter. The cost of the flood insurance will be included in the PITI ratio.

Flood/mudslide hazard area requirements can be found in RD Instruction 1980-D, Section 1980.318.

# Manufactured Homes

- Existing manufactured homes are not permitted.
- Loans may be made to purchase a new manufactured unit, an eligible building site, site development costs and set up costs.
- New units must meet the requirements of Federal Manufactured Housing Construction & Safety Standards (FMHCSS).
- New manufactured homes must be purchased from an Agency approved “dealer-contractor. A list of the currently approved dealer-contractors follows this page. Dealers may contact the local RHS offices located throughout the state for the application and requirements for becoming an approved dealer-contractor.
- A real estate mortgage must secure the unit and site, and the unit must be placed on a permanent engineered foundation that complies with the HUD Permanent Foundation Guide for Manufactured Housing (HUD-007487).
- FMHCSS Uo Value Zone 2 or higher is acceptable in Texas. All units must have a Comfort Heating Certification.
- The dealer contractor must provide the borrower with a Builder’s Warranty for at least one year.
- Satisfactory final inspection report.

**“Modular” or “Panelized” homes are not affected by the requirements listed above. Modular homes must meet the state adopted building code requirements for “stick built” construction.**



## ***Texas USDA Rural Development Dealer-Contractors for Manufactured Housing***

This page uses javascript. If your browser does not support javascript or this page does not load correctly, please visit [our text version of the page.](#)

DEALER/CONTRACTOR	ADDRESS	CITY	PHONE
SortIt	SortIt	SortIt	SortIt
Redman Homes, Inc.	2550 Walnut Hill, Suite 200	Dallas, TX 75229	(214) 353-3600
Wide Load, Inc.	PO Box 162825	Austin, TX 78716	None Available
Ranch Country Manufactured Homes Inc.	P.O. Box 790	Sealey, TX 77474	(409) 885-6262
Covenant Communities Partners, Ltd.	2901 Bee Caves Road, Box C	Austin, TX 78746	(512) 328-0487
Jimark, L.L.C. dba Q & S Home Sales	3095 Highway 90 East	Uvalde, TX 78801	(830) 591-2727
Jack Ford Realty	742 Holly Springs	Conroe, TX 77302	(409)321-2117
Weatherby Homes, Inc.	5400 Bosque Blvd., Suite 201	Waco, TX 76710	(254) 751-7085
Berry Creek Homes, Inc.	P.O. Box 2243	Georgetown, TX 78627	(512) 930-0040
Action Mobile Homes	3602 Highway 377 East	Granbury, TX 76049	(817) 573-2270
Morning Star Homes	P.O. Box 1728	Alvin, TX 77511	(713) 331-8387
Taylor-Taylor Aerospace, Inc. dba Modern Homes	18502 Interstate 27	Canyon, TX 79015	(806) 655-8110
TKO Raybon Investments, Inc.	3828 West Davis, Suite 308-316	Conroe, TX 77304	(409) 447-1681
Investment Enterprises, Inc. dba American Homes	1900 East Interstate 30	Rockwall, TX 75087	(972) 771-9204
Spears Mobile Homes, Inc.	2000 Junction Highway	Kerrville, TX 78208	(830) 895-3003
Peoples Manufactured Housing, Inc.	408 Shiloh	Laredo, TX 78045	(956) 724-8510
Home Choice	1406 West Highway 380	Farmersville, TX 75442	(972) 784-4663
High Country Properties, Inc.	P.O. Box 865	Canyon, TX 79015	(806) 655-7715
Greenhill Homes Ltd.	25 Highland Park Village, Suite 100-228	Dallas, TX 75205	(214) 378-9955
Mustang Mobile Homes, Inc.	1405 North University Ave.	Lubbock, TX 79415	(806) 765-6810
The Super Way Home	3216 Hyw 155 No.	Palestine, TX 75801	(903) 729-2624
Bluebonnet Manufactured Homes, Inc.	2901 Highway 281 North	Marble Falls, TX 78654	(830) 693-8558
Hench's Country Liv'n Homes Ltd.	17245 State Hwy. 56 W.	Sherman, TX 75092	(903) 868-2577
CAVCO Home Center	1416 Hwy. 71 West	Bastrop, Texas	(512) 321-5051
Gentry Ranch Home and Land	P.O. Box 466	Royce City, Texas 75189	(972) 636-2108
One Way Home and Land Company Inc.	625 North Beaton	Corsicana, Texas 75110	(903) 872-9400
Palm Harbor Homes, Inc.	28970 IH 10 West	Boerne, Texas 78006	(830) 755-4922
Cisco Sales, Inc.	P.O. Box 4449	McAllen, Texas 78502	(956) 781-1039

**The following Dealer-Contractors are approved for Guaranteed Rural Housing Loans Only**

- |   |   |
|---|---|
| <p>1. Palm Harbor Homes<br/>         Various locations throughout Texas<br/> <a href="http://www.palmharbor.com/sales_locations/index.asp">www.palmharbor.com/sales_locations/index.asp</a></p> | <p>2. Nationwide Manufactured Homes<br/>         Various locations throughout Texas<br/> <a href="http://www.mobilehome.net/dealers/tx/index.htm">www.mobilehome.net/dealers/tx/index.htm</a></p> |
|---|---|

# PROCESSING APPLICATIONS

Applicant eligibility requirements can be found in RD Instruction  
1980-D, Section 1980.345

# Application Processing

In accordance with RD Instruction 1980-D, Section 1980.354, applications will be reviewed for completeness typically within 48 hours of receipt. The loan will be underwritten by the lender prior to submission to USDA Rural Development. The underwriter should approve all credit/ratio waivers prior to submission.

While USDA Rural Development is not underwriting the file, it still must review certain eligibility criteria, perform an environmental review, and review the property appraisal.

USDA Rural Development will perform "Credit Only" reviews for lenders if requested. This will allow lenders to feel comfortable with an application before they go to the expense of obtaining appraisals, inspections, etc.

Loans may be submitted directly to one of our 30 local offices or to the Single Family Housing Section in the State Office.

The address for the Single Family Housing Section is:

101 S. Main, Suite 102  
Temple, Texas 76501  
(254) 742-9770  
(254) 742-9735 FAX

To determine the applicable local office, please go to

[www.rurdev.usda.gov/officeinfo.htm](http://www.rurdev.usda.gov/officeinfo.htm)

If you do not have access to the web, you may call (254) 742-9770 for a Field Office Directory.

# USDA Rural Development Guaranteed Rural Housing Loans The 10 Step Process

- **Step 1:** Lender originates the loan, orders Credit Report, VOEs, etc.
- **Step 2:** Lender insures the applicant is eligible for a guaranteed loan  
*This is based on:*     *Property is in eligible rural area*  
                              *Income eligibility*  
                              *Credit*  
                              *Ratios*
- **Step 3:** Complete all Rural Development forms to include borrower and lender signatures where applicable
- **Step 4:** Submit to your underwriting; reserve loan with Rural Development with Form 1980-86
- **Step 5:** Underwriting submits copy package to Rural Development office
- **Step 6:** Rural Development reviews loans and issues 1980-18  
“Conditional Commitment”
- **Step 7:** After receipt of Form 1980-18, Lender closes loan
- **Step 8:** Lender mails all required items of Form 1980-18 to Rural Development with Loan Closing Report and guarantee fee of **1.75%**
- **Step 9:** Rural Development issues Loan Note Guarantee
- **Step 10:** Lender services loan

## USEFUL WEBSITES IN COMPLETING THE PROCESS:

*USDA Home Page*

<http://www.usda.gov/>

*Rural Development Home Page*

<http://www.rurdev.usda.gov/>

*Rural Development Regulations*

<http://rdinit.usda.gov/regs/index.html>

*Rural Development Forms*

<http://rdinit.usda.gov/regs/formlist.html>

# USDA Rural Development Guaranteed Loan Program Checklist

## USDA Forms

- Form 1980-86, Reservation of Funds – **1 page** (rev. 10-99) (signed by the lender)
- Form 1980-21, Request for SFH Loan Guarantee – **4 pages** (rev 1-03) (signed by the lender and the borrowers) **Original 1980-21 must be sent to USDA Rural Development**
- Form AD-1048, Certificate regarding Debarment - **1 page** (rev.1-92) (signed by the borrowers)
- Form 1924-25, Plan Certification – **2 pages** (rev.7-99) (for **new construction only** - signed by authorized individual) **OR** Form HUD-92541, "Builder's Certification of Plans, Specifications, and Site."

## Other Required documents

- Signed Application(Fannie Mae Form 1003, "Uniform Residential Loan Application")
- Evidence of Lender's Loan Approval - Transmittal Summary (FNMA Form 1008) or other underwriting analysis signed by the underwriter.
- Copy of Sales Contract
- Credit Report in accordance with RD AN No. 3831 (1980-D)
- Documentation of call to CAIVRS for all borrowers (Place numbers on item #13 of Form RD 1980-21)
- Explanation from the applicant for any adverse credit issues
- Request for waiver of RD prescribed ratio criteria from underwriter (if ratios exceed 29/41)
- Mortgage/rental verification if not on the credit report (Not required if middle credit score exceeds 660)
- Written Verification of Employment (FNMA Form 1005) for all adult household members. **(Or Alt. Doc)**
- Written Verification of child support (if applicable)
- Written Verification of Deposit for all accounts
- Two years of income tax returns for self employed applicants
- Self employed income analysis (if applicable)
- Current Profit and Loss / Balance Sheet (for self employed applicants)
- W-2s or current pay stubs
- Source of funds/gift letter (if applicable)
- Complete fully executed copy of divorce decree (if applicable)
- Request for ratio on RD ratio criteria from underwriter (if applicable)
- Appraisal with original photos or good quality copies.
- Verification of Alien Status (if applicable)
- FEMA 81-93, Flood Certification **(Required in initial submission to USDA Rural Development)**
- Homebuyer Education Certificate

## New construction

- Lender certification that all required inspections were made by qualified individual
- Evidence of termite treatment
- Lender certification that either a one-year Builder's Warranty has been obtained or an approved 10-year warranty has been purchased.
- Health Authority approval of the septic system and/or water well (if applicable)
- Plan Certification – Form RD 1924-25 or Form HUD-92541

It is not necessary to submit building plans and specifications to USDA Rural Development

## Existing Homes:

- Lender certification that a qualified inspector performed the required home inspection
- Lender certification that the property meets the current requirements of HUD Handbook 4150.2
- Lender certification that the property meets the thermal standards per 1980.313 (f) of RD Ins.1980-D
- Lender certification that all required repairs by the appraiser have been completed

*Note: This checklist is not required by any Rural Development Instruction. It is merely a guide to help you in ensuring all required documents are provide to Rural Development for the issuance of a Conditional Commitment. Additional documentation may be requested by Rural Development in order to issue the Loan Note Guarantee*

TO: All State Directors  
Rural Development

ATTENTION: Rural Housing Program Directors, Guaranteed Rural Housing  
Specialists, Rural Development Managers, and Community  
Development Managers

FROM: Arthur A. Garcia           *(Signed by Arthur A. Garcia)*  
Administrator  
Rural Housing Service

SUBJECT: Single Family Housing Guaranteed Loan Program  
Acceptable Alternative Documentation to Verify the Applicant's  
Employment Income

PURPOSE/INTENDED OUTCOME

The purpose of this Administrative Notice (AN) is to elaborate upon the acceptable forms of employment income verifications for loans guaranteed under the Single Family Housing Guaranteed Loan Program. The Rural Housing Service (RHS) will accept verification methodologies similar to those currently acceptable to the residential mortgage industry, secondary markets, and other Federal agencies.

This AN only addresses verification of employment and income documentation for non-self-employed applicants. Documentation requirements for other types of income (e.g., self-employment, disability, child support income, etc.) are unchanged by this AN.

COMPARISON WITH PREVIOUS AN

This AN replaces RD AN No. 3848 (1980-D) dated April 10, 2003.

EXPIRATION DATE:  
March 31, 2005

FILING INSTRUCTIONS:  
Preceding RD Instruction 1980-D

## BACKGROUND

Two separate but equally essential components to the Single Family Housing Guaranteed Loan Program require the Lender to determine:

1. The applicant's adequate and dependable income. This income figure is used to determine the applicant's repayment ability. [RD Instruction 1980-D, Section 1980.345(b)]
2. The applicant's adjusted annual income. This income figure is used to determine eligibility for the RHS loan guarantee. (RD Instruction 1980-D, Section 1980.347)

Traditionally, written documentation from third parties has been the preferred method of verifying information. The Lender has been required to verify the applicant's current, year-to-date (YTD), and previous year's employment earnings by obtaining:

- Form RD 1910-5, "Request for Verification of Employment" (or equivalent form), and;
- Copies of the applicant's three most recent paycheck stubs (to check for consistency with the information in the employer verification).

However, over the past several years, the residential mortgage industry, secondary markets, and other Federal agencies have determined that in most cases, alternative, applicant-provided documentation provides accurate and sufficient information regarding the applicant's employment income. The use of alternative, applicant-provided documentation increases the efficiency of the mortgage origination process resulting in savings of both time and money.

A lender that chooses to use alternative documentation must obtain documentation sufficient to provide a complete picture of the applicant's financial situation, and apply the same stable and dependable income qualification criteria regardless of the type of income verification documentation used.

## DOCUMENTATION

The following documentation is deemed acceptable for verifying the employment income of non-self-employed loan applicants:

- ◆ 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
- ◆ Paycheck stubs or payroll earnings statements covering the most recent 30-day period, and W-2 tax forms for the previous 2 tax years, and a telephone verification of the applicant's current employment  
or
- ◆ Electronic verification or other computer-generated documents accessed and printed from an Intranet or Internet, and W-2 tax forms for the previous 2 tax years, and a telephone verification of the applicant's current employment.

**The Verification of Employment (VOE) form must be:**

- signed by the applicant or accompanied by an authorization for a release of information form signed by the applicant.
- sent directly to the employer by the Lender.
- completed by the employer and returned to the Lender directly without passing through the hands of a third party or the applicant.
- completed within 120 days (180 days for proposed new construction) prior to the time Form RD 1980-18, Conditional Commitment for Single Family Housing Loan Guarantee, is issued.

We recommend that the lender obtain at least one paycheck stub to check for consistency with the VOE form.

Some employers routinely leave certain portions of the VOE form blank; e.g., item #11 relating to probability of continued employment. The verification may still be valid even if certain information is omitted. The lender must underwrite the loan application and be able to make the determination that the applicant has adequate and dependable income. The lender must disapprove the application if the applicant's loan repayment ability cannot be determined or is not acceptable.

**The paycheck stub or payroll earnings statement should:**

- be the original computer-generated or typed document. (The original paycheck stubs or payroll earnings statements may be returned to the applicant after the Lender has made clear, certified true copies for the Lender's mortgage file. Copies provided by any other source, such as the real estate agent, are unacceptable.)
- be the most recent as of the date the initial loan application is made.
- clearly identify the applicant as the employee by name and/or social security number.
- show the applicant's gross earnings for that pay period and year-to-date.

The lender should obtain paycheck stubs or payroll earnings statements covering the most recent 30-day period. For most borrowers, this will require 2-4 paycheck stubs. Paycheck stubs covering the most recent 30-day time period allow the lender to properly underwrite the loan application using alternative documentation.

If the applicant's paycheck stub or payroll earnings statement does not contain all of the information required; e.g., gross year-to-date earnings, the lender should attempt to obtain this information in the telephone verification with the applicant's employer.

The **W-2 forms** should:

- be the original, computer-generated or typed, employee copies provided by the employer. The original W-2 forms may be returned to the applicant after the Lender has made clear, certified true copies for the Lender's mortgage file. Copies provided by any other source, such as the real estate agent, are unacceptable.
- cover the 2 most recent tax years.
- not contain any alterations, erasures, or corrections.

The **telephone verification** should be substantiated by a written document that shows:

- contact was made within 120 days of loan closing (180 days for proposed new construction).
- employer/company name, address and phone number.
- employer's contact person and title.
- applicant's name, date of employment and present position.
- probability of continued employment.
- amount of current base pay.
- amount of other income such as overtime, bonus, commissions, etc.
- likelihood that the level of current earnings will continue.
- name and title of Lender's employee that contacted the employer.

Some employers will not release certain detailed information over the telephone, for example, amount of current earnings. This is acceptable provided the paycheck stubs or payroll earnings statements contain this information.

Also, the telephone verification can be used to supplement the written documentation when the written documentation is not clear, or incomplete.

The **electronic verification** or other computer-generated document accessed and printed from an Intranet or Internet should:

- cover the most recent pay period as of the date the initial loan application is made.
- clearly identify the applicant as the employee by name and/or social security number.
- show the applicant's gross earnings for the most recent 30-day period and year-to-date.

### THIRD-PARTY EMPLOYMENT VERIFICATION SERVICES

RD Instruction 1980-D, Section 1980.309(f) allows lenders to use other institutions in carrying out their responsibility to obtain verification of an applicant's employment and income.

In order to be acceptable to RHS, the automated verification must provide essentially the same detailed employment and income information that is normally obtained using the VOE form, including year-to-date and previous year's pay history. This level of verification is often referred to as a "full verification."

We know of several companies that obtain information directly from participating employers in order to provide lenders with employment and income verifications, including:

- The Work Number®. (<http://www.theworknumber.com>)
- Jon-Jay Associates, Inc. (<http://www.jonjay.com/jonjay/evs.php>)
- National Credit Reporting System (<http://ncstrv.com>)

## SUMMARY

The Lender is responsible for the sufficiency, integrity and accuracy of the underwriting documents. The documents should be clear and legible, be free of any indications that changes have been made, and provide consistent information.

Lenders successfully using alternative documentation have shared the following ideas:

- Use the items on the VOE form as a "checklist" to ensure that all of the required information has been obtained.
- Develop and use a standard telephone confirmation form to ensure that all required information is collected.
- Independently confirm (by using the telephone book, calling directory assistance, etc.) the employer's telephone number. Not only is this practice effective in guarding against misrepresentation, the lender will often have more success by directly contacting the employer's payroll or human resources office (as compared to the applicant's supervisor.)
- During the telephone call to the employer, offer to fax the employer a copy of the form signed by the applicant authorizing the employer to release information to the lender.
- If the employer will not answer all of the lender's questions, ask if they will confirm (rather than release) information that the applicant has already provided to the lender. Offer to fax the employer a copy of the payroll earnings statement to confirm its authenticity.

## IMPLEMENTATION RESPONSIBILITIES:

In keeping with the standards of this Administrative Notice, Agency employees reviewing requests for guarantees under the Single Family Housing Guaranteed Loan Program should accept documentation meeting the above requirements for verification purposes under RD Instruction 1980-D, Section 1980.353(e).

Agency employees will review selected applications to ensure that Lenders are obtaining sufficient documentation to accurately calculate applicant income. Agency employees are encouraged to be flexible and to use their best judgment when deciding whether the documentation provided by the Lender is acceptable.

# USDA RURAL DEVELOPMENT FORMS

Lenders will originate GRH loans on standard mortgage (Fannie Mae, Freddie Mac, etc.) forms and will provide USDA Rural Development with a fully documented, underwritten COPY package. The following are samples of the Rural Development forms required for a GRH loan.

Lenders may obtain the necessary forms on the Internet at:

<http://rdinit.usda.gov/regs/formlist.html>

or by contacting any USDA Rural Development office.

***PLEASE NOTE:*** When Rural Development forms have multiple pages, please include all pages of the form in the file.

UNITED STATES DEPARTMENT OF AGRICULTURE  
RURAL DEVELOPMENT  
RURAL HOUSING SERVICE (RHS)  
GUARANTEED RURAL HOUSING (GRH)

**SAMPLE**

**REQUEST FOR RESERVATION OF FUNDS**

**LENDER INFORMATION:**

<b>Submitting Lender Name:</b> <u>Loans R Us Mortgage</u>	<b>Tax I.D. No.</b> <u>123456789</u>
<b>Address:</b> <u>One Park Place, Suite 500</u> <u>Anywhere, TX 55555</u>	
<b>Lender Contact Person:</b> <u>Minnie Bucks</u>	
<b>Contact Phone No.</b> <u>( 800 ) 555-5555</u>	<b>Ext.</b> <u>303</u> <b>Fax No.</b> <u>( 254 ) 742-0001</u>
<b>RHS Approved Lender</b> (Complete when <u>Submitting Lender</u> (listed above) is not an RHS Approved Lender):	
<b>Name:</b> <u>Megabucks Mortgage, Inc.</u>	<b>Tax I.D. No.</b> <u>999888777</u>

**APPLICANT/PROPERTY INFORMATION:**

**Reservation Amount Requested:** \$ 100000  Applicant and Co-Applicant are both First Time Home buyers

<b>Applicant Information</b> <b>Name:</b> <u>Anita House</u> <b>SSN:</b> <u>111223333</u>	<b>Co-Applicant Information</b> <b>Name:</b> <u>James House</u> <b>SSN:</b> <u>987654321</u>
<b>OPTIONAL: (Please circle or mark as appropriate)</b>	<b>OPTIONAL: (Please circle or mark as appropriate)</b>
<b>Veteran:</b> Yes <input checked="" type="radio"/> No <input type="radio"/> <b>Disabled:</b> Yes <input checked="" type="radio"/> No <input type="radio"/> <b>Gender:</b> M <input type="radio"/> F <input checked="" type="radio"/>	<b>Veteran:</b> Yes <input checked="" type="radio"/> No <input type="radio"/> <b>Disabled:</b> Yes <input checked="" type="radio"/> No <input type="radio"/> <b>Gender:</b> <input checked="" type="radio"/> M <input type="radio"/> F
<b>Ethnicity:</b> (Check only One Box) <input type="checkbox"/> Hispanic or Latino <input checked="" type="checkbox"/> Not Hispanic or Latino	<b>Ethnicity:</b> (Check only One Box) <input type="checkbox"/> Hispanic or Latino <input checked="" type="checkbox"/> Not Hispanic or Latino
<b>Race:</b> (Check as many boxes as applicable) <input type="checkbox"/> American Indian or Alaska Native <input type="checkbox"/> Black or African American <input type="checkbox"/> Native Hawaiian or Other Pacific Islander <input checked="" type="checkbox"/> Asian <input checked="" type="checkbox"/> White	<b>Race:</b> (Check as many boxes as applicable) <input type="checkbox"/> American Indian or Alaska Native <input type="checkbox"/> Black or African American <input type="checkbox"/> Native Hawaiian or Other Pacific Islander <input type="checkbox"/> Asian <input checked="" type="checkbox"/> White
<b>Marital Status:</b> <input checked="" type="checkbox"/> Married <input type="checkbox"/> Separated <input type="checkbox"/> Unmarried	<b>Marital Status:</b> <input checked="" type="checkbox"/> Married <input type="checkbox"/> Separated <input type="checkbox"/> Unmarried

**Property Address:** 111 Easy Street  
**City, State, Zip Code:** Paradise, TX 88888 **County:** Horizon

*We are processing an application from the above named person(s), and expect to have a complete package, to you within 60 days. Please reserve funds for this loan. We have reviewed the applicants income and credit history and have tentatively determined the applicant(s) has sufficient qualifying income and credit history to proceed with this application.*

**Date:** \_\_\_\_\_

(Authorized Lender Representative/Official)

According to the Paperwork Reduction Act of 1995, an agency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless it displays a valid OMB control number. The valid OMB control number for this information collection is 0575-0078. The time required to complete this information collection is estimated to average 30 minutes per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information.

UNITED STATES DEPARTMENT OF AGRICULTURE  
RURAL DEVELOPMENT  
RURAL HOUSING SERVICE

**SAMPLE**  
OMB No.

**REQUEST FOR SINGLE FAMILY HOUSING LOAN GUARANTEE**

TO: Rural Development Rural Housing Service  101 South Main, Suite 102  Temple, TX 76501	Lender ID No. 999888777
	Lender Name Megabucks Mortgage, Inc.
	Lender Contact Person Ann Teeks
	Lender Phone Number 800-666-6666
	Lender Fax Number 800-777-7777

Please issue a Conditional Commitment for Single Family Housing Loan Guarantee in the following case:

Applicant's Name, Address, and County  Anita House & James House  111 Easy Street  Paradise, TX 88888	Social Security No. 111-22-3333
	Age 32
	Telephone Number 842-666-1010

- The applicant  has  does not have a relationship with any current Rural Development employee.
- The applicant is a (check applicable):  US citizen  qualified alien  U.S. Non-citizen National  
 other (explain)
- The applicant is a (check applicable):  veteran  first time homebuyer
- Number of persons in the household: 3
- The applicant's credit report indicates (check one):
  - a. The applicant has no credit history
  - b. The applicant has no adverse credit history
  - c. The applicant has experienced adverse credit history but we have determined that it is beyond the applicant's control
  - d. Other (explain):
- The current annual income for the household is: \$ 55,000.00
- The current adjusted income for the household is: \$ 54,520.00
- TOTAL DEBT ratio 38.00 PITI ratio 27.00
- We propose to loan \$ 120,000 for 30 years at 6.75 % per annum with payments of \$ 779.00 per month.
- The interest rate is based on the  Fannie Mae  VA rate on \_\_\_ / \_\_\_ / \_\_\_.  
 \_\_\_ The interest rate is locked in until \_\_\_ / \_\_\_ / \_\_\_.  
 The interest rate will float until loan closing.  
 (If this option is checked and the interest rate increases at loan closing, the loan must be re-underwritten and this certification must be updated).
- The applicant is unable to secure the necessary conventional credit without a Rural Development guarantee upon terms and conditions which the applicant could reasonably be expected to fulfill.
- The applicant understands that Rural Development approval of the guarantee is required and is subject to the availability of funds.
- Housing and Urban Development's Credit Alert Inactive Voice Response System (CAIVRS) was checked for outstanding delinquent Federal debts and confirmation No. A334003947 was obtained.
- Loan funds will be used for the following purpose(s):

Purpose	Amount
<u>Purchase house</u>	\$ <u>113,000.00</u>
<u>Closing Costs, Prepays, 1.5% Guarantee Fee</u>	\$ <u>7,000.00</u>
<b>Total Loan =</b>	<u>120,000.00</u>

According to the Paperwork Reduction Act of 1995, no persons are required to respond to a collection of information unless it displays a valid OMB control number. The valid OMB control number for this information collection is 0575-0078. The time required to complete this information collection is estimated to average 30 minutes per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information.

## Certifications

In order to induce the Agency to issue the requested guarantee, we certify that we have originated and underwritten the loan in compliance with all Agency loan requirements. This form contains or is supplemented with all information required by 7 C.F.R. § 1980.353(c).

\_\_\_\_\_

Date

\_\_\_\_\_

Lender's Authorized Representative Signature

## Applicant(s) Acknowledgments and Certifications

I (We) certify and acknowledge that if the Agency pays a loss claim on the requested loan to the lender, I (We) will reimburse the Agency for that amount. If I (We) do not, the Agency will use all remedies available to it, including those under the Debt Collection Improvement Act, to recover on the Federal debt directly from me (us). The Agency's right to collect is independent of the lender's right to collect under the guaranteed note and will not be affected by any release by the lender of my (our) obligation to repay the loan. Any Agency collection under this paragraph will not be shared with the lender.

I AM (WE ARE) unable to provide the housing I (we) need on my (our) own account, and I am (we are) unable to secure the credit necessary for this purpose from other sources upon terms and conditions which I (we) can reasonably fulfill. I (we) certify that the statements made by me (us) in this application are true, complete and correct to the best of my (our) knowledge and belief and are made in good faith to obtain a loan.

Warning: Section 1001 of Title 18, United States Code provides: "Whoever, in any matter within the jurisdiction of any Department or Agency of the United States knowingly and willfully falsifies, conceals or covers up by any trick, scheme, or device a material fact, or makes any false, fictitious or fraudulent statements or representations, or makes or uses any false writing or document knowing the same to contain any false, fictitious or fraudulent statement or entry, shall be fined under this title or imprisoned not more than five years, or both."

\_\_\_\_\_

Borrower

\_\_\_\_\_

Co-Borrower

\_\_\_\_\_

Date

\_\_\_\_\_

FOR AGENCY ONLY

\_\_\_\_\_

Check one:  The applicant is eligible  The applicant is not eligible

## NOTICE TO APPLICANT REGARDING PRIVACY ACT INFORMATION

The information requested on this form is authorized to be collected by the Rural Housing Service (RHS), Rural Business Cooperative Services (RBS), or Rural Utilities Service (RUS) ("the agency") by title V of the Housing Act of 1949, as amended (42 U.S.C. 1471 et seq.) or by the Consolidated Farm and Rural Development Act (7 U.S.C. 1921 et seq.), or by other laws administered by RHS, RBS or RUS.

Disclosure of information requested is voluntary. However, failure to disclose certain items of information requested, including your Social Security Number or Federal Identification Number, may result in a delay in the processing of an application or its rejection. Information provided may be used outside of the agency for the following purposes:

1. When a record on its face, or in conjunction with other records, indicates a violation or potential violation of law, whether civil, criminal or regulatory in nature, and whether arising by general statute or particular program statute, or by regulation, rule, or order issued pursuant thereto, disclosure may be made to the appropriate agency, whether Federal, foreign, state, local, or tribal, or other public authority responsible for enforcing, investigating or prosecuting such violation or charged with enforcing or implementing the statute, or rule, regulation, or order issued pursuant thereto, if the information disclosed is relevant to any enforcement, regulatory, investigative, or prosecutive responsibility of the receiving entity.
2. A record from this system of records may be disclosed to a Member of Congress or to a Congressional staff member in response to an inquiry of the Congressional office made at the written request of the constituent about whom the record is maintained.
3. Rural Development will provide information from this system to the U.S. Department of Treasury and to other Federal agencies maintaining debt servicing centers, in connection with overdue debts, in order to participate in the Treasury Offset Program as required by the Debt Collection Improvement Act, Pub. L. 104-134, Section 31001.
4. Disclosure of the name, home address, and information concerning default on loan repayment when the default involves a security interest in tribal allotted or trust land. Pursuant to the Cranston-Gonzales National Affordable Housing Act of 1990 (42 U.S.C. 12701 et seq.), liquidation may be pursued only after offering to transfer the account to an eligible tribal member, the tribe, or the Indian Housing Authority serving the tribe(s).
5. Referral of names, home addresses, social security numbers, and financial information to a collection or servicing contractor, financial institution, or a local, State, or Federal agency, when Rural Development determines such referral is appropriate for servicing or collecting the borrower's account or has provided for in contracts with servicing or collection agencies.
6. It shall be a routine use of the records in this system of records to disclose them in a proceeding before a court or adjudicative body, when: (a) the agency or any component thereof; or (b) any employee of Rural Development in his or her official capacity, or (c) any employee of the agency in his or her individual capacity where the agency has agreed to represent the employee; or (d) the United States is a party to litigation or has an interest in such litigation, and by careful review, the agency determines that the records are both relevant and necessary to the litigation, provided; however, that in each case, the agency determines that disclosure of the records is a use of the information contained in the records that is compatible with the purpose for which the agency collected the records.
7. Referral of name, home address, and financial information for selected borrowers to financial consultants, advisors, lending institutions, packagers, agents, and private or commercial credit sources, when Rural Development determines such referral is appropriate to encourage the borrower to refinance their RHS indebtedness as required by title V of the Housing Act of 1949, as amended (42 U.S.C. 1471) or to assist the borrower on the sale of the property.
8. Referral of legally enforceable debts to the Department of the Treasury, Internal Revenue Service (IRS), to be offset against any tax refund that may become due the debtor for the tax year in which the referral is made, in accordance with the IRS regulations and under the authority contained in 31 U.S.C. 3720A.
9. Referral of information regarding indebtedness to the Defense Manpower Data Center, Department of Defense, and the United States Postal Service for the purpose of conducting computer matching programs to identify and locate individuals receiving Federal salary or benefit payments and who are delinquent in their repayment of debts owed to the U.S. Government under certain programs administered by the agency in order to collect debt under the provisions of the Debt Collection Act of 1982 (5 U.S.C. 5514) by voluntary repayment, administrative or salary offset procedures, or by collection agencies.
10. Referral of names, home addresses, and financial information to lending institutions when Rural Development determines the individual may be financially capable of qualifying for credit with or without a guarantee.
11. Disclosure of names, home addresses, social security numbers, and financial information to lending institutions that have a lien against the same property as the agency for the purpose of the collection of the debt by Rural Development or the other lender. These loans can be under the direct and guaranteed loan programs.
12. Referral to private attorneys under contract with either Rural Development or with the Department of Justice for the purpose of foreclosure and possession actions and collection of past due accounts in connection with Rural Development.
13. It shall be a routine use of the records in this system of records to disclose them to the Department of Justice when: (a) The agency or any component thereof; or (b) any employee of the agency in his or her official capacity where the Department of Justice has agreed to represent the employee; or (c) the United States Government, is a party to litigation or has an interest in such litigation, and by careful review, the agency determines that the records are both relevant and necessary to the litigation and the use of such records by the Department of Justice is therefore deemed by the agency to be for a purpose that is compatible with the purpose for which the agency collected the records.
14. Referral of names, home addresses, social security numbers, and financial information to the Department of Housing and Urban Development (HUD) as a record of location utilized by Federal agencies for an automatic credit prescreening system.
15. Referral of names, home addresses, social security numbers, and financial information to the Department of Labor, state wage information collection agencies, and other Federal, state, and local agencies, as well as those responsible for verifying information furnished to qualify for Federal benefits, to conduct wage and benefit matching through manual or automated means, for the purpose of determining compliance with Federal regulations and appropriate servicing actions against those not entitled to program benefits, including possible recovery of improper benefits.

16. Referral of names, home addresses, and financial information to financial consultants, advisors, or underwriters, when Rural Development determines such referral is appropriate for developing packaging and marketing strategies involving the sale of Rural Development loan assets.

17. Rural Development, in accordance with 31 U.S.C. 3711(e)(5), will provide to consumer reporting agencies or commercial reporting agencies information from this system indicating that an individual is responsible for a claim that is current.

18. Referral of names, home and work addresses, home telephone numbers, social security numbers, and financial information to escrow agents (which also could include attorneys and title companies) selected by the applicant or borrower for the purpose of closing the loan.

# Sample

## U.S. DEPARTMENT OF AGRICULTURE

### Certification Regarding Debarment, Suspension, Ineligibility and Voluntary Exclusion - Lower Tier Covered Transactions

This certification is required by the regulations implementing Executive Order 12549, Debarment and Suspension, 7 CFR Part 3017, Section 3017.510, Participants' responsibilities. The regulations were published as Part IV of the January 30, 1989, Federal Register (pages 4722-4733). Copies of the regulations may be obtained by contacting the Department of Agriculture agency with which this transaction originated.

**(BEFORE COMPLETING CERTIFICATION, READ INSTRUCTIONS ON REVERSE)**

- (1) The prospective lower tier participant certifies, by submission of this proposal, that neither it nor its principals is presently debarred, suspended, proposed for debarment, declared ineligible, or voluntarily excluded from participation in this transaction by any Federal department or agency.
- (2) Where the prospective lower tier participant is unable to certify to any of the statements in this certification, such prospective participant shall attach an explanation to this proposal.

Organization Name

PR/Award Number or Project Name

Name(s) and Title(s) of Authorized Representative(s)

Signature(s)

Date

Applicant & Co-applicant sign here

Form AD-1048 (1/92)

## Instructions for Certification

1. By signing and submitting this form, the prospective lower tier participant is providing the certification set out on the reverse side in accordance with these instructions.
2. The certification in this clause is a material representation of fact upon which reliance was placed when this transaction was entered into. If it is later determined that the prospective lower tier participant knowingly rendered an erroneous certification, in addition to other remedies available to the Federal Government, the department or agency with which this transaction originated may pursue available remedies, including suspension and/or debarment.
3. The prospective lower tier participant shall provide immediate written notice to the person to which this proposal is submitted if at any time the prospective lower tier participant learns that its certification was erroneous when submitted or has become erroneous by reason of changed circumstances.
4. The terms "covered transaction," "debarred," "suspended," "ineligible," "lower tier covered transaction," "participant," "person," "primary covered transaction," "principal," "proposal," and "voluntarily excluded," as used in this clause, have the meanings set out in the Definitions and Coverage sections of rules implementing Executive Order 12549. You may contact the person to which this proposal is submitted for assistance in obtaining a copy of those regulations.
5. The prospective lower tier participant agrees by submitting this form that, should the proposed covered transaction be entered into, it shall not knowingly enter into any lower tier covered transaction with a person who is debarred, suspended, declared ineligible, or voluntarily excluded from participation in this covered transaction, unless authorized by the department or agency with which this transaction originated.
6. The prospective lower tier participant further agrees by submitting this form that it will include this clause titled "Certification Regarding Debarment, Suspension, Ineligibility and Voluntary Exclusion - Lower Tier Covered Transactions," without modification, in all lower tier covered transactions and in all solicitations for lower tier covered transactions.
7. A participant in a covered transaction may rely upon a certification of a prospective participant in a lower tier covered transaction that it is not debarred, suspended, ineligible, or voluntarily excluded from the covered transaction, unless it knows that the certification is erroneous. A participant may decide the method and frequency by which it determines the eligibility of its principals. Each participant may, but is not required to, check the Nonprocurement List.
8. Nothing contained in the foregoing shall be construed to require establishment of a system of records in order to render in good faith the certification required by this clause. The knowledge and information of a participant is not required to exceed that which is normally possessed by a prudent person in the ordinary course of business dealings.
9. Except for transactions authorized under paragraph 5 of these instructions, if a participant in a covered transaction knowingly enters into a lower tier covered transaction with a person who is suspended, debarred, ineligible, or voluntarily excluded from participation in this transaction, in addition to other remedies available to the Federal Government, the department or agency with which this transaction originated may pursue available remedies, including suspension and/or debarment.

PLAN CERTIFICATION

**SAMPLE**

(Property Name/Applicants Name and Case Number)		Anita House	
(Property Address)	111 Easy Street	(City)	Paradise
(County)	Horizon	(State)	Texas

BUILDING TYPE:  Single Family  Multi-Family  
 PLANS:  Original  Modifications

I, John Boy being a (Chose One)  
(type or print) (licensed architect, engineer, or authorized building official, etc.)  
 in the State of Texas, hereby certify that I have reviewed:

- the plans and specifications dated 8/23/02 prepared by Acme & Assoc. Architects  
(name of firm or individual)  
 for the above property
- the thermal performance plans, specifications and calculations dated \_\_\_\_\_  
 prepared by \_\_\_\_\_ for the above property  
(name of firm or individual)
- the seismic design (plans and specifications) dated \_\_\_\_\_ prepared by \_\_\_\_\_  
 \_\_\_\_\_ for the above property  
(name of firm or individual)
- modifications listed below, that have been clearly indicated on the drawings and specifications  
 dated \_\_\_\_\_ prepared by \_\_\_\_\_ and certified by \_\_\_\_\_  
(name of firm or individual) and related to the above property  
(name of firm or individual)

MODIFICATIONS \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

According to the Paperwork Reduction Act 1995, an agency may not conduct or sponsor, and a person is not required to respond to a collection of information unless it displays a valid OMB control number. The valid OMB control number for this information collection is 0575-0042. The time required to complete this information collection is estimated to average 10 minutes per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information.

Based upon this review, to the best of my/our knowledge, information, and belief, these documents comply with the:

2000 International Residential Code (IRC) for One-and-Two Family Dwellings and  
(name and edition of the applicable development standard)

National Electric Code (NEC)  
(name and edition of the applicable energy standards/requirements in accordance with RD Instruction 1924-A, Exhibit D)

designated as the applicable Rural Development or Farm Service Agency development standards for this project.

I understand the purpose of this certification is to induce United States Government to finance the construction of the above project and plan. I further understand that false certification constitutes a violation of 18 U.S.C. Section 1001 punishable by fine and/or imprisonment and, in addition, may result in debarment from participating in future government programs.

_____	8/23/02
(Signature)	(Date)
John Boy	_____
(Type or print name)	(Professional Registration No.)
_____	_____
(Title)	(Expiration Date if applicable)
123-456-7890	
(Area Code + Telephone Number)	

# Guarantee Fee

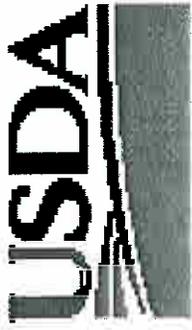
**Effective June 1, 2004, the guarantee fee for all GRH purchase loans is 1.75 percent. The guarantee fee for refinance loans is 0.5 percent.**

- **To calculate the fee:** Multiply the principal loan amount by .0175 and round to the next cent.

**Example: \$90,000 x .0175 = \$1,575.00**

- **To calculate a loan amount that includes the fee:** Divide the original principal loan amount by .9825 (1.00 less the .0175 fee rate), and round to the next cent. To calculate the 1.75 percent fee, multiply the amount of the loan with the fee included by .0175.

**Example: Original loan amount \$90,000/.9825 =  
Loan with fee: \$91,603.05  
Loan with fee \$91,603.05 X .0175 =  
Guarantee Fee: \$1,603.05**



## GUARANTEED RURAL HOUSING PROGRAM INCOME LIMITS

	ADJUSTED INCOME LIMITS								
	1 person	2 person	3 person	4 person	5 person	6 person	7 person		
<b>MSA: Austin-San Marcos, TX</b>	<b>Counties Include: Bastrop, Caldwell, Hays, Travis, Williamson</b>								
	Mod. Income-guar.loan**	57250	65450	73600	81800	88350	94900		
<b>PMSA: Brazoria, TX</b>	<b>Counties Include Brazoria</b>								
	Mod. Income-guar.loan**	50600	57850	65100	72300	78100	83900		
<b>AREA: Dallas, TX</b>	<b>Counties Include: Collin, Dallas, Denton, Ellis, Hunt, Kaufman, Rockwall</b>								
	Mod. Income-guar.loan**	53550	61200	68850	76500	82600	88700		
<b>PMSA: Fort Worth-Arlington, TX</b>	<b>Counties Include: Hood, Johnson, Parker, Tarrant</b>								
	Mod. Income-guar.loan**	50450	57650	64900	72100	77850	83650		
<b>PMSA: Galveston-Texas City, TX</b>	<b>Counties Include Galveston</b>								
	Mod. Income-guar.loan**	48150	55050	61900	68800	74300	79800		
<b>PMSA: Houston, TX</b>	<b>Counties Include: Chambers, Fort Bend, Harris, Liberty, Montgomery, Waller</b>								
	Mod. Income-guar.loan**	49100	56100	63150	70150	75750	81350		
<b>All other counties in Texas</b>	<b>Mod. Income-guar.loan**</b>								
Except:	Hartley, Kendall & Loving		46300	52900	59500	66150	71400	76700	82000

**3/08/2004 Special PN**

\*\* MODERATE INCOME IS DEFINED AS THE GREATER OF 115% OF THE AVERAGE OF THE STATE NON METROPOLITAN AND STATE-WIDE MEDIAN FAMILY INCOMES, 115/80ths OF THE AREA LOW-INCOME LIMIT OR 115% OF THE U.S. MEDIAN FAMILY INCOME.

This is a summary of RD Instruction 1980-D, Exhibit C. For a complete list of counties and income limits, refer to RD Instruction 1980-D, Exhibit C. You may download from <http://www.rurdev.usda.gov/rhs/sfill/ncome%20limits%20guaranteed/txgrh.pdf> or obtain a copy at any Rural Development office.

# INCOME ELIGIBILITY CALCULATION WORKSHEET 502 GUARANTEED RURAL HOUSING LOAN

Borrower/s \_\_\_\_\_

Date of Calculation \_\_\_\_\_ Total # household members = \_\_\_\_\_

State: \_\_\_\_\_ County: \_\_\_\_\_

List all non-exempt household income: (Per §1980.347) Note: Only count a total of \$480 per year (\$40 per month) of income of working full time students over the age of 18, living in the household, who are not the applicants.  
Note: The \$480.00 "Eligibility Deduction" granted to full-time students effectively "zeros out" their income.

Name of household member receiving the income	Source of income	Monthly income from source (Actual or Average)	X12	Annual income from source
		\$ _____	X12	\$ _____
		\$ _____	X12	\$ _____
		\$ _____	X12	\$ _____
		\$ _____	X12	\$ _____
		\$ _____	X12	\$ _____
		\$ _____	X12	\$ _____
		\$ _____	X12	\$ _____
		\$ _____	X12	\$ _____
		\$ _____	X12	\$ _____
		\$ _____	X12	\$ _____
		\$ _____	X12	\$ _____
		\$ _____	X12	\$ _____

**Total Gross Household Income** \$ \_\_\_\_\_ Total Monthly X12 \$ \_\_\_\_\_ Total Annual

**Deductions from Annual Income:** (Per § 1980.348) (Use when gross income is above income limit):

- (1) Number of Minors living in household: \_\_\_\_ X \$480.00 (Under age 18) \$ \_\_\_\_\_
- (2) Number of Disabled/Handicapped Adults: \_\_\_\_ X \$480.00 (18 or over & NOT borrowers) \$ \_\_\_\_\_
- (3) Number of full time adult students: \_\_\_\_ X \$480.00 (18 or over & NOT borrowers) \$ \_\_\_\_\_
- (4) Elderly Family: (borrower or co-borrower over 62) One time deduction of \$400.00 \$ \_\_\_\_\_
- (5) Annual Child Care Expense \$ \_\_\_\_\_
- (6) Medical expenses (Elderly family only. Un-reimbursed > 3% gross annual income) \$ \_\_\_\_\_

**TOTAL Annual Deductions (Sum of Line 1 thru Line 6)** \$ \_\_\_\_\_

**Adjusted Gross Annual Household Income (Gross income less deductions)** \$ \_\_\_\_\_

**ADJUSTED COUNTY HOUSEHOLD INCOME LIMIT per Rural Development** \$ \_\_\_\_\_

\_\_\_\_\_  
Lender Signature Date

\_\_\_\_\_  
Printed Name

**VERIFICATION OF CHILD/DEPENDENT CARE**

**REQUEST FOR INFORMATION**

Federal regulations require us to verify financial information provided by applicants for housing assistance. We ask your cooperation in supplying the information requested. The attached Form 3550-1, Borrower's Certification and Authorization provides the applicant's authorization.

Your prompt return of the requested information will be appreciated. A self-addressed return envelope is enclosed for your convenience. If you have questions, please call \_\_\_\_\_ at \_\_\_\_\_

**APPLICANT IDENTIFICATION**

Name \_\_\_\_\_ Social Security Number \_\_\_\_\_

**REQUESTED INFORMATION**

Name of Person or Agency Providing Care: \_\_\_\_\_

Address: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Name(s) of person or Persons Cared for: \_\_\_\_\_  
\_\_\_\_\_

Specify Hours \_\_\_\_\_ and Days \_\_\_\_\_ of Care.

Average Amount Paid for Care: \$ \_\_\_\_\_  Week  Month

Estimated Amount to be Paid in coming 12 months (including full-time summer care of school children, if applicable): \$ \_\_\_\_\_

Will any amount of this expense be reimbursed by an outside source:  Yes  No

**VERIFIER INFORMATION:** Please sign this verification form and print the name, address and telephone number of the verifier.

Name: \_\_\_\_\_ Title: \_\_\_\_\_

\_\_\_\_\_  
Telephone Number: \_\_\_\_\_

(Signature)

**WARNING:** Knowingly and willingly making a false or fraudulent statement to any department of the United States Government is a felony punishable by fine and imprisonment (Title 18, Section 1001, U.S. Code)