

NOTE: CORRECTIONS MADE AFTER THE ORIGINAL DISTRIBUTION OF THE DOCUMENT NOTED IN ITALICS.

First Edition (dtd 5/29/97)

1. Does each applicant have to take a homebuyer's class?

Yes {1980.309(f)(4)}

2. Is a home financed in the direct loan program, which is an ineligible area eligible for GRH?

No

3. Can we finance repairs in the GRH program?

~~For example, in the direct program, we can finance rehabilitation such as repair of roofs, siding, floor coverings, etc.?~~ No, Escrow accounts can only be established for exterior development only. The main purpose for this is landscaping for new construction (1980.315).

See issue number 21, question 1 for clarification.

4. Can we finance a home that is located on a private road with a road maintenance agreement or a home that is served by a right-of-way? ***Please refer to AN 372. Dated 5/1/01, Subject-Road Access and Regulations 1980-D section 1980.313(b).***

5. Can we accept a loan application when the applicant owns a mobile home, not on a permanent foundation?

Yes, however you must condition for the sale of the mobile home. It must close prior to the closing of the new home, evidence must be provided that the debt has been paid in full and the loan applicant must be released from liability. ~~You can only issue the conditional commitment for 90 days, there would be no extensions.~~ ***(updated 9/27/02) Additional information-if the borrower is unable to sell the unit, he can rent it. Include any net rental income in the annual and repayment income calculations. Net rental income should include a 25% vacancy allowance. A mobile home, not on a permanent foundation, is not considered adequate housing (update 5/03/01).***

6. Can a ratio waiver be given?

Yes, up to 1% on one ratio. The lender also needs to provide written compensating factors {1980.345(e)(5)}. ***Note: A ratio waiver is not allowed with a Buydown. (updated 9/27/02) See RD AN 3582, dated November 1, 2000.***

7. Can we accept a ten-year warranty *application* in place of the three required construction inspections?

Yes, as long as you have a 2/10 warranty and the final inspection report. Note that the other requirements such as termite, water etc. still need to be in the *lender* file.

8. Do resubmitted, previously rejected loan applications have priority over newly submitted applications?

Yes

9. Can we finance a property that is located in a private, gated community?

Yes, as long as it meets the subdivision requirements as set forth in 1980.311. ~~You will also need to condition that the lender have continuous access to the property to perform security functions. A copy of the letter from the HOA to the lender must be in our file.~~

Second Edition (dtd 6/6/97)

1. Can we finance a condominium?

Yes, ~~remember that you do not obtain an individual property survey but one of the entire development.~~ You will also need to obtain information to show that the condo is on a state road or is in an approved Home Owners Association(HOA). *A copy of the survey is no longer needed, see edition 13.*

2. Can we ever use a letter to update a Verification of Employment?

Yes, but only if you have issued a loan commitment. If there is a change in the applicant's income and you have not issued a conditional commitment or the loan is submitted for reconsideration, you must have a new VOE.

3. What information do we need in order to make a loan in a subdivision that is not currently state maintained but plans to be in the future?

~~You~~ *The lender* will need an irrevocable letter of credit, a copy of the VDOT bond, and the county resolution. You will also need to address any issues concerning the HOA.

4. What is acceptable evidence that a Planned Unit Development (PUD) is out of the hands of the developer?

Please refer to letter issued 9/29/97 that states in reviewing the requirements of the 1980-D regulation and in discussions with the National Office, we will no longer require that HOAs be managed by the homeowners.

Third Edition (dtd 9/5/97)

1. Can Rural Development financed comparable sales be used for GRH appraisals?

Yes, according to our State Appraiser and the National Office. Several offices have asked this question in light of the requirements of 1922-C. This instruction states that they cannot be used. According to the National Office, as long as the Rural Development comparable are arm's length transactions and best available, they will meet the requirements of USPAP and be acceptable for the GRH program.

2. Can an applicant or property be substituted on form RECD 1980-86?

No, the lender must submit a new 1980-8, 1980-24 and update all loan documents that refer to the subject property (i.e. application, underwriting form). We would also recommend updating all documents when there is a change in loan amount.

3. What are the lender and Rural Development responsibilities in underwriting the loan?

The lender is responsible for the analysis. The Agency is not underwriting the loan but determining program eligibility. We are issuing the Loan Note Guarantee to offset the risk of the 100% LTV loan; not to offset poor credit, income or property risk factors.

4. Are homes with an in ground swimming pool allowed to be financed?

No, the current issue of 1980-D(6/21/95) does prohibit the financing of in ground swimming pool.

5. Is there a difference in calculating adjusted income and repayment income in the GRH loan or direct programs?

No, both incomes are counted in the same manner. See 1980.345, 1980.348 for GRH loans and Chapter 4 for direct. All income from all adults (regardless of if they are obligated to the note) must be counted for annual income. Only income from parties obligated on the promissory note are counted for repayment income.

Fourth Edition (dtd 10/7/97)

1. How do we handle applications during the period of time when funds are not available?

Around October 14, we expect to receive our allocation from the National Office. Until that time, local offices can accept application packages from lenders. These packages will not have completed reservation. Lenders can send the reservations to Ann in the State Office. She will hold these until we receive funds. After we receive the allocation of funds, Ann will process the reservations and forward these to the lenders. The lenders should forward these to the local offices. At that point the 48 hours processing clock will begin to run on the application. Please reassure your lenders that the funding situation is temporary and we will have adequate funds for FY98.

2. Does an applicant have to be in their current employment for a minimum of 24 months to be eligible for a GRH loan?

RD Instruction 1980.345(c)(2)(i) states that "In considering qualifying income, the Lender must determine whether there is a historical basis to conclude that the income is likely to continue. Typically, income of less than 24 months duration should not be included in qualifying income." RD Instruction 1980.354 (opening paragraph) states "...documentation that there is reasonable assurance of repayment ability...". RD Instruction 1980.345(b) states, "The applicant (and coapplicant, if applicable) has adequate and dependably available income. The applicant's history of income and the history of the typical annual income of other is the area with similar types of employment will be considered in determining whether the applicant's income is adequate and dependable." If the applicant has a stable employment history, the VOE indicates that there is a continued probability of employment, and the income is sufficient to repay the loan and other debts, we should not require that all applicants meet the 24 month timeframe. However, if there appears to be an erratic employment history, you should use your judgment in exercising the 24 month rule.

3. Do we need original signatures on the AD 1048, form 410-9 and form 1980-21?

You should obtain original signatures on the above forms. You can condition for these items.

4. Can an applicant provide cash to cover the gap between the loan amount and the sales price of the property?

For example, the sales contract is for \$128,000 and the appraisal is \$125,000. The loan amount would be \$125,000 and the Loan Note Guarantee would be issued for \$125,000. Can the applicant provide \$3,000 for the gap between the sales price and loan amount?

Yes, but there are several considerations to make. ~~First, will the HUD loan limit be exceeded for that area? If yes, then the applicant cannot provide the additional funds. The payment of additional cash cannot be used to undermine the HUD limit.~~ **HUD loan limits eliminated 12/21/98.**

Second, would the amount of cash provided allow the applicant to obtain *conventional* credit elsewhere? If the answer is that the borrower will not be eligible for other credit, then providing the additional cash will be acceptable.

Third, is the money from cash on hand or will it be borrowed? If the funds will be provided from cash on hand, is this shown on the application? If the applicant is borrowing the funds, this must be considered in the ratios. In summary, this practice is acceptable under certain conditions.

Fifth Edition (dtd 10/10/97)

1. How do we handle an interest rate change (*increase only*) after the issuance of the Conditional Commitment?

The lender must provide copies of the revised loan application, Form 1980-21, "Request for Single Family Housing Loan Guarantee", and underwriting analysis. The loan application should show the new interest rate. The underwriting analysis should show the new interest rate along with the updated PITI and TD ratios. These changes must be initialed by or the new form signed by the underwriter. The local office will revise the 1980-18, "Conditional Commitment for Single Family Housing Loan Guarantee", by changing the interest rate. The local office should type the revised date and reason for the change in the top right hand corner. The loan approval official will initial the change and the revised copy will be forwarded to the lender. Local offices should not change any other dates on the form.

2. Do we round the loan amount on the 1940-3, "Request for Obligation of Funds for Guaranteed Loans", and the amount of the guarantee fee?

~~No, you do not round the amount of the loan to the next \$10 as you did with direct loans. Additionally, you do not round the guarantee fee. For example: for a loan in the amount of \$98,752, the fee would be \$888.77 (\$98,752 X .90 X .01). You should not round up to \$889.00 or \$888.80. The amount of the fee must correspond with the fee listed on Form 1980-18, "Conditional Commitment for Single Family Housing Loan Guarantee." Note: 1940-3 was eliminated as of 10/1/99.~~

3. How do we know from the loan application package that the applicant does not currently own adequate housing?

There is no particular item in any of the application package forms that addresses this issue. However, if this is the case, it should be shown in Section VI, Assets and Liabilities, on the Uniform Residential Loan Application (URLA). The lender is responsible for ensuring the applicant meets the requirement of 1980-D. When the lender signs Form 1980-16, "Agreement for Participation in Single Family Housing Guaranteed/Insured Loan Programs of the United States Government", they agree to "...determine if loan applicants meet the general requirements of the Agency's guaranteed/insured loan program". This is stated in Section C, part 2, of Form 1980-16. Under part 3 of Section C, the lender agrees to "...disapprove the application where the applicant does not qualify for a guaranteed/insured loan under the requirements and procedures of the Agency". Under Section F, part 2, "The lender shall conform to all originating, servicing, reporting and operational standards imposed by the Agency in the execution of the guaranteed/insured loan program. "Under Section F, part 3, "If the lender is found to be in noncompliance with Federal or State law or regulation. Agency guidelines, or terms of this Agreement, the Agency reserves the right to take action in accordance with its laws and regulations". If a local office has a situation where the lender is not considering that the applicant currently owns adequate housing, this should be forwarded to the State Office for consideration of appropriate actions.

4. Do we need to require that the original copy of the RD Form EC and PC be submitted in order to issue the Loan Note Guarantee?

~~Yes.~~ *Note: both forms are obsolete.*

Sixth Edition (dtd 10/27/97)

1. Does the local office need to wait until the State Office faxes the 1A screen to the local office before issuing the Conditional Commitment?

~~Yes, the local office must also pull a UN screen and verify the loan information input by the State Office. The Conditional Commitment may be issued after this review. Note: as of January of 2001, all local offices are processing their own obligations.~~

2. How do we determine that the inspector who completed the EC form is qualified?

~~FmHA instruction 1980.341(b) states, "Inspections shall be done by a party the Lenders determines to be qualified, such as a HUD approved fee inspector." This does not mean that only HUD fee inspectors are qualified. The Lender is responsible for making the inspector suitability determination. Rural Development employees should not make any determinations that the inspector is qualified. Should employees be aware of any problems, the State Office should be notified. As of July 2002, the EC form was eliminated.~~

3. Must we document Form 1940-22, "Environmental Checklist for Categorical Exclusions" as required in the direct loan program?

Yes, please refer to Virginia Instruction 1940-G, Attachment 14, page 6, letter "o". All offices should have received a copy of this instruction during the Farmer Program training in 1994.

Seventh Edition (dtd 11/28/97)

1. What date is used to determine the correct Fannie Mae or VA interest rate?

You will use the date of the loan application. *Clarification-if the rate floats until closing, use the date of the loan lock (9/27/02).*

2. Do we require that the original signed loan application be submitted?

No

3. What documents are needed to complete Form FmHA 1940-22, "Environmental Checklist for Categorical Exclusions"?

At a minimum, the loan approval official will need the real estate appraisal with color pictures (or color reproductions of the photos) and the flood certification form. Only in limited cases will a visit to the property be appropriate. It is the responsibility of the loan approval official to "independently evaluate environmental information submitted by or on behalf of the applicant (the lender), then must assure itself of the accuracy of that information, and make an independent decision based thereon." {FmHA AN No. 3222 (1980-D)}. The loan approval official will need to use information from the office environmental library (which includes the State Natural Resources Management Guide, floodplain maps and soil surveys) to complete the environmental review. If the local office does not have these items, please contact the State Environmental Coordinator. The National Environmental Policy Act(NEPA) requires

that the environmental review must be completed prior to the issuance of a conditional commitment for guarantee by the agency. The loan approval official cannot issue a conditional commitment subject to an environmental review {FmHA AN No. 3222 (1980-D)}.

Eighth Edition (dtd 12/8/97)

1. When the lender makes a request to the SHPO for a determination under Section 106 of the National Historic Preservation Act and the SHPO does not respond within 30 days, can we proceed with loan processing?

~~Yes, the SHPO must respond within 30 days of the request.~~

NOTE: No need to contact SHPO if no loan funds will be used for repairs to the property (as of June 2001).

2. Is there ever an incidence when child care expenses are included in the repayment ratios?

No. According to the National Office, child care expenses are not included when making a loan in the commercial market. The new 1980-D (entitled subpart 3555) will state that child care expenses will not be included in the repayment ratios.

3. What information does the lender need to verify the income of a self-employed applicant?

“Applicants deriving their income from a farming or business enterprise will provide current documentation of the income and expenses of the operation. In addition, historic information from the previous fiscal year must be presented.” {1980.353(e)(1)(v)}. ***See RD AN 3727 for details (9/27/02).***

Ninth Edition (dtd 2/5/98)

1. Is there a specific lot acreage that cannot be exceeded for the GRH program?

No, there is no specific acreage. RD Instruction 1980.313(f) states, “Generally, the value of the site must not exceed 30 percent of the total value of the property. When the value of the site is typical for the area, as evidenced by the appraisal, and the site cannot be subdivided into two or more sites, the 30 percent limitation may be exceeded.”

2. How do we decrease the loan amount once the loan has been obligated?

~~Submit FmHA Form 1940-10, “Cancellation of US Treasury Check and/or Obligation”. Complete the form as indicated by the FMI and in the remarks section note why the loan amount has decreased. Fax the 1940-10 to Ann Marsh at (804)287-1720. After the transaction has processed, the local office may process the loan closing. ***Note: as of 10/1/99, this procedure no longer applies.***~~

3. Is it appropriate for the borrower to take a “non-classroom” (i.e. such as those offered by VHDA or VHDA certified trainers) type of homeownership education course?

Yes. Applicants can take other forms of homeownership training such as the Fannie Mae booklet.

Tenth Edition (dtd 2/9/98)

1. Can an applicant obtain a guaranteed loan if they are eligible for another type of financing such as an FHA or VA loan?

~~No, 1980.353(c)(5) states that the application must include a "Statement from the Lender that it will not make the loan as requested by the applicant without the proposed guarantee...". This statement is included on page two of RD Form 1980-21, Request for Single Family Housing Guarantee.~~

See issue number 20, question #2.

2. Can an applicant use the \$480 deduction for a child that will reside with the applicant part of the year?

The applicant can use the \$480 deduction when the child resides with him/her for a portion of the year and the applicant can claim the child on his or her federal income tax return. Usually, this can be verified with a divorce decree.

Eleventh Edition (dtd /98)

This edition was skipped!

Twelfth Edition (dtd 5/1/98)

1. When and how much cash can a borrower receive back at loan closing?

The borrower should not receive back any funds at loan closing unless the amount of those funds were equal to the amount the borrower provided for the transaction. "The purpose of a loan guaranteed under this subpart must be to acquire a completed dwelling and related facilities to be used by the applicant as a primary residence. The loan may include funds for the purchase and installation of necessary appliances, energy saving measures, and storm cellars. Incidental expenses for tax monitoring services, architectural, appraisal, survey, environmental, and other technical services may be included." Please see RD instruction 1980.310 for further information.

2. Where should the Credit Alert Interactive Voice Response System(CAVIRS) number be listed?

"The loan approval official will check HUD's Credit Alert Interactive Voice Response System (CAVIRS) to determine if the applicant is delinquent on a Federal debt. The Lender will clearly document both its CAVIRS identifying number and the borrower and co-borrower's CAVIRS access code near the signature line on the mortgage application form." Please see RD Instruction 1980.345 for further information.

3. Can we condition for the receipt of the State Historic Preservation Officer (SHPO) response for properties that are more than 50 years old?

No. The loan approval official must complete an environmental review prior to the issuance of the Conditional Commitment. Please see AN 3380 (1980-D) for more details.

Please note that the SHPO has a new address:
2801 Kensington Avenue
Richmond, VA 23220

NOTE: No need to contact SHPO if no loan funds will be used for repairs to the property (as of June of 2001).

Thirteenth Edition (dtd 5/22/98)

1. What date and Fannie Mae rate do we use when the borrower does not lock in an interest rate at loan application?

Updated 7/24/01, 11/01/01, 05/09/02, 5/15/02, 9/27/02, 5/21/03

If the borrower chooses to float the rate (this should be indicated Form RD 1980-21), the local office will need to condition that any increase in interest rate will require new underwriting of the repayment ratios. The date of the Fannie Mae rate will be the date the borrower locked the interest rate. The lender must provide evidence that the borrower locked-in on a particular date. If the borrower does not float the rate, the date of the Fannie Mae rate is the date of the loan application.

2. Do we always require a new survey when making a guaranteed loan?

Not always. In general, survey coverage for the lender's title policy will be available when the existing survey is less than 10 years old and the current owner signs an affidavit stating that there are no charges to the property (i.e. fences and buildings). There is no owners title coverage available unless a new survey is completed.

Local offices use the survey to obtain additional information about the status of flood hazard areas, wetlands, and other environmental issues. As discussed in Q and A #7, dated November 28, 1997, a full environmental review must be completed prior to the issuance of the Conditional Commitment. This is done through the use of the real estate appraisal and, possibly, the flood certification form. The survey was used as additional information, not to make the original environmental determination.

Local offices use the survey as additional information in determining if the property is located on a state maintained road. Local offices are making this determination through the use of the real estate appraisal, prior to the issuance of the Conditional Commitment.

In summary, a new survey will not be needed if the lenders title policy offers survey coverage. Local offices should make a determination concerning environmental and state maintained road issues from the real estate appraisal. Lenders who fail to provide factual information at the time of application for the Conditional Commitment concerning these issues (either through error or fraud) could jeopardize the loan guarantee, and risk suffering a reduction or forfeiture a loss claim.

Please replace the current condition for surveys with the following:

A new survey will not be required when survey coverage in the lender's title policy exists.

If survey coverage is not available, a new house location survey must be submitted with the loan closing package.

3. Do the requirements of RD AN NO. 3395 (1924-A), dated April 20, 1998, apply to the GRH program?

AN 3395 outlines the acceptability of the National Pest Control Association's forms NPCA-99a, NPCA 99b, and NPCA-1 for the evidence of either chemical soil treatment for new construction or certification inspection for existing homes. The HUD form 92052 is obsolete. These forms are acceptable for use in the GRH program. Please reference AN 3395 for guidance.

Fourteenth Edition (dtd 6/19/98)

1. What type of appraisal review does the loan approval official complete before issuing the Form RD 1980-18, Conditional Commitment for Single Family Housing Loan Guarantee?

An administrative review is the least detailed and will done on all appraisals. It is made to determine whether the appraisal presents an appropriate value for the property based on market conditions. The reviewer determines whether the appraisal is complete, the mathematics are correct, that there is a proper number of current comparables, and that both the cost and comparable sales approaches were used to determine market value. The loan approval official will complete Form RD 1922-15. A technical review may be requested by the loan approval official when problems are detected on the administrative review.

These problems must be significant and result in an appraisal which does not support the value conclusion. Please see RD Instruction 1922-C, Exhibit D for more information.

2. Is there any occasion in which the thermal standards are not met?

~~Yes, but only for an existing dwelling. There can be some instances when the inspector cannot verify the insulation due to accessibility problems or when insulation cannot be added due to space constraints. The inspector must document that the cost to heat and cool the dwelling is not significantly greater than those costs for a dwelling that meets the thermal standards {RD Instruction 1980.313(f)}.~~

The thermal standards as outline in 1924-A, Exhibit D do not apply to Virginia. See the unnumbered letter dated June 17, 2002.

3. What is a heated basement or crawl space?

A heated basement or crawl space exists where there is a constant, year-round heat source which maintains a minimum temperature of 50 degrees Fahrenheit. There must be duct work to the basement or crawl space; a furnace located in a basement or crawl space is not sufficient.

Fifteenth Edition (dtd 8/3/98)

1. Is there a short cut to calculating the guarantee fee?

~~Yes, divide the principal amount of the loan by 110.11. Note: this statement is not valid after 10/1/00.~~

2. When a home served by a community water system is guaranteed, how do we meet the requirement that an interested third party be available to enforce operation {RD Inst. 1980.313(c)}?

The Commonwealth of Virginia Health Department has a series of processes to monitor community water systems. If the system should fail, which is unlikely, the Commonwealth will appoint a receiver to operate the system. Therefore, there does not need to be a legal binding agreement which allows interested third parties to run the system.

3. Do we require a financial statement on a non-borrowing spouse?

No. The regulations do not require this documentation.

4. Is the Health Department required to perform the water test or "walk over" septic inspection?

No. In the majority of Virginia counties, this is performed by a private laboratory or contractor. The Health Department monitors system installation at the time of original installation or upgrade.

5. Are individual well and septic systems covered by the Clean Water Act or Safe Drinking Water Act?

No. Those acts apply to systems which are not individual. The coliform bacteria test for individual wells and a "walk over" inspection for the septic system is required at the time of transfer of the property.

Sixteenth Edition (dtd 8/13/98)

1. When do we send the check for the Guarantee Fee to lockbox?

RD Instruction 1951-B, paragraph 1951.55 requires that checks be recorded upon receipt. All collections must be kept in a locked fireproof safe, or in a locked cabinet until forwarded to the lockbox. Funds must be forwarded if the amount received during the business day is \$1000 or more. Funds must be forward

every three days or each Friday for amounts less than \$1000. It has come to our attention, that offices are holding checks until all loan conditions are met which does not meet the requirements of RD Instruction 1951-B. In order to safeguard our Guaranteed Fees full compliance is required immediately. Rural Development Managers are required to review and monitor collections in the local offices.

2. What notice is required to the lender to cancel a loan obligation?

The lender will be sent a letter allowing them 30 days to submit the necessary information to issue a Loan Note Guarantee. If the information is not sent during this timeframe, another letter will be sent requesting the missing information give the lender **appeal rights**. (see page 82 of 1980-D). If this information is not received after the second timeframe expires, the obligation will be canceled.

REMINDER: All Virginia Rural Development offices should be using the new Conditional Commitment attachment released August, 1998.

3. If you do not issue a Loan Note Guarantee to a lender due to the lender's failure to meet loan conditions, how do we request a refund of the Guarantee Fee?

Please notify Ann Marsh, State Loan Technician, Single Family Housing Division using the following format: In a memo give the name and case number of the borrower and the name, address, and Tax ID number of the approved lender who will be issued the refund check. The memo should read as follows: "Due to the lender's failure to comply with the conditions set forth in the Conditional Commitment dated _____, Rural Development has canceled the loan obligation and is requesting a refund of the guaranteed fee in the amount of \$_____. Please remit the refund check to the above mentioned lender." Ann will fax this information to the Finance Office and the check will be issued within approximately 14 days. *Note: Since Ann is longer assigned to the State Office, please fax the information to Gwen Fender or Michelle Corridon.*

4. What is acceptable documentation for the 10 year home warranty?

A copy of the completed application signed by all the necessary parties.

Seventeenth Edition (dtd 9/28/98)

1. When can the builder sign the PC form?

~~The builder can sign the PC form when he/she offers a 10 year home warranty (RD Instruction 1924.5(f)(1)(iii)(C)(5)).~~ *PC form eliminated.*

2. When a house is served by an individual well and septic and connection to the public water and sewer is available, is there a requirement to hoop up to the public system?

Not necessarily. If the well and septic are functioning properly and the local government body does not require hook-up upon property transfer, there is no requirement to hook up to the public system.

Eighteenth Edition (dtd 11/3/98)

1. What is the factor to include the guarantee fee in the loan amount?

~~Multiply the principal amount of the loan by 1.010101 or divide the principal amount by .99.~~ *Note: this is not valid after 10/1/00.*

2. When a lender is originating a loan for VHDA, what lender identification number is used on the 1980-86, "Reservation of Funds"?

VHDA's identification number which is 540921892.

3. When transmitting the guarantee fee to the lockbox, do we include the 1980-19, "Guarantee Loan Closing Report"?

No. The 1980-19 must accompany the fee transmitted from the lender to the local office.

Nineteenth Edition (dtd 3/18/99)

1. What is the factor to include the guarantee fee in the loan amount?

~~Multiply the principal amount of the loan by 1.010101 or divide the principal amount by .99. AN 3412 issued on September 9, 1998 is incorrect. If the fee will not be included in the loan, multiply the loan amount by 1%. Round your figures to the nearest tenth. *Note: this is not valid after 10/1/00.*~~

2. What R factor of insulation is required in the wall?

In an existing home we do not require that the wall insulation be certified as this area is not accessible. In a home to be constructed, the insulation must meet the CABO Model Energy Code (1995) for the area in which the home is located. The PC form will provide certification that this requirement is met.

3. What are the qualifications for an existing subdivision to be eligible for financing in the GRH program?

RD Instruction 1980.311(c) requires that an existing subdivision be approved by the local, state, or Federal government body. "An existing subdivision is one in which the local government has accepted the subdivision plan, its principal developments and rights-of-ways, the construction of streets, water and water/waste disposal systems, and utilities; is at a point which precludes any major changes; and provisions are in place for continuous maintenance of the streets and the water and water/waste disposal systems." In Virginia, most localities have a system in place to review subdivisions and, therefore, can be assumed that the subdivision is approved by the local government. A dwelling located in a subdivision served by an Home Owners Association(HOA) may be accepted when the project has been approved or accepted by HUD, VA, Fannie Mae, or Freddie Mac. HOA's do not have to be turned over the homeowners in order to be eligible for GRH financing.

Twentieth Edition (dtd 5/6/99)

1. If a loan applicant had a government mortgage loan (ex. FHA), the foreclosure occurred over 36 months ago but the CAIVRS number indicates a delinquent government debt, how do handle the request for credit?

The lender cannot deny credit based on the CAIVRS number alone. If there is sufficient evidence to show that the delinquency has been resolved, the loan may be guaranteed. In the above example, since the foreclosure occurred more than 36 months ago and a claim had been paid by FHA, the loan may be guaranteed {RD Instruction 1980.345(f)}.

2. If an applicant is eligible for an FHA, VA, or other government loan, can we deny a Rural Development guaranteed loan?

No. The borrower would have to qualify for conventional financing to be denied a guaranteed loan.

3. What are the requirements for financing condominiums?

Updated 7/24/01, 11/01/01, 05/09/02, 5/15/02, 9/27/02, 5/21/03

The project and HOA must meet the criteria of HUD, VA, Fannie Mae, or Freddie Mac. The documentation must be provided by the loan applicant to the lender and retained in the lender case file.

4. What is the proper documentation of acceptance of an HOA by Fannie Mae?

The lender completes a certification form (FNMA type E PUD Project Approval and Warranty) as part of the loan package. The form should indicate that the project is in the hands of the homeowners and the appraiser has included a description of the project and information about the HOA fee.

Twenty-first Edition (dtd 4/14/00)

1. Can we finance repairs to the house with a GRH loan?

Yes, loan funds can be used to provide special design features or equipment necessary to accommodate a physically disabled member of the household, necessary purchase appliances, and upgrade energy efficiency {RD Instruction 1980.310}. However, escrow accounts are only used for exterior development {RD Instruction 1980.315}.

2. What is the procedure when the GRH fee is not included (or the incorrect fee) in the loan closing package?

The entire package will be returned to the lender with a cover memo of explanation. If the package is not made whole within 30 days, steps will be taken to de-obligate the loan. See Q and A #16, questions 2 and 3.

3. Do we require a copy of the title policy/commitment for our file?

No. The lender will retain a copy in their file. The Attachment to the Conditional Commitment will be changed and distributed to Rural Development employees and lenders.

Twenty-Second Edition (dtd 1/26/01)

1. Can commission or bonus income in addition to base pay be counted for annual and repayment income?

Yes, if the Verification of Employment indicates continuance of this type of income.

2. Can we use finance a condo?

Yes, the condo development and the Home Owners Association must be approved by HUD, VA, Fannie or Freddie.

3. If we receive a request for loan guarantee, the applicant previously owned property, and relinquished his interest as a result of a divorce, what documentation do we need to show he no longer owns real estate in the local commuting area?

A copy of the court affirmed separation agreement, divorce decree or a copy of the deed. Any of these documents would be acceptable.

Twenty-Third Edition (dtd 1/26/01)

1. Can commission or bonus income in addition to base pay be counted for annual and repayment income?

Yes, if the Verification of Employment indicates continuance of this type of income. Consideration should also be given the length of time the applicant has been employed by the company and the amount of time the applicant has been employed in that type of work {RD Instruction 1980.345((C)(2))}.

2. If an applicant has ratios that exceed 29 and 41 and the credit score exceeds 720, does the lender need to provide a written waiver request?

No, please see RD AN 3582, dated November 1, 2000 for more details.

3. How does RD AN 3597 (Residential Lead-Based Paint Hazard Reduction) effect the GRH program?

The lender is responsible for compliance with 24 CFR 35; therefore, the GRH staff will monitor compliance during lender visits. Rural Development staff do not have to collect any information for the agency case file.

Twenty-Fourth Edition (dtd 2/24/01)

1. Can a loan be guaranteed for purchase plus repairs? Is there a limit to the type or dollar value of the repairs?

Yes (please note this is a change from Q and A 21). The appraisal should be done on an "as repaired" basis and the loan note guarantee issued after all repairs are complete. A Satisfactory Completion Statement or other similar can document completion of the repairs.

2. Do we require a water test for a community water system?

Yes. The lender should retain a copy of the most recent Virginia Department of Health (VDH) water test in their file. VDH tests community water systems on a quarterly basis. In some cases where there are system problems, the test is completed monthly.

Twenty-Fifth Edition (dtd 4/26/01)

4. How many months must an applicant be out of bankruptcy before they would be eligible for a GRH loan?

1980.345(d)(2)(ii) requires that bankruptcy discharged for more than 36 months not be used as an indicator of unacceptable credit, regardless of the type of bankruptcy. HB-1-3550 (direct loan program) states that an applicant who successfully completes a bankruptcy debt restructuring plan and demonstrates a willingness to meet obligations when due is eligible for a loan within 12 months. Therefore, in the GRH program, Chapter 7 bankruptcy must be discharged for a minimum of 36 months and Chapter 13 (or other similar types of plans) must be discharged for one year.

A credit waiver may be acceptable if the reasons meet the requirements of 1980.345(d)(3). The lender must provide documentation and the Rural Development official must issue a concurrence letter.

5. Are Non-Sufficient Funds (NSF) checks considered unacceptable credit?

No, NSF checks are not listed an indicator of unacceptable credit per 1980.345(d)(1).

6. Can time attending high school or college be used in determining adequate and dependable income?

Yes, recent students do not have to be on the job for two years prior to obtaining a GRH loan. The applicant must be employed in a permanent, non-probationary position.

7. When a household has an adult who is not employed, do we require a notarized statement that they will not obtain employment within the next 12 months?

A statement is necessary but it does not have to be notarized.

8. Is there an upper limit on the total debt ratio when requesting a ratio waiver?

No. Please see RD AN 3582 for details.

Questions and Answers #26 (dtd 7/13/01)

1. Do we still require the funds availability statement for GRH loans?

Section 1980.353(c)(14) requires that the borrower sign a funds availability statement. Because of the requirement to reserve each loan in the GLS reservations system, this requirement is outdated. Per the National Office, we no longer will require this as part of the loan file.

2. We have received a “merged infile credit report”. Is this type of report acceptable under RD AN 3587, “Applicant Credit History Verification”?

Yes, if it specifies that the information was obtained from three different credit-reporting bureaus and rental history.

3. We received an infile credit report that states “This report contains information supplied by the repositories names above. Its contents have not been verified by this agency and may contain duplicate information. While this report is being used for some real estate lending purposes, it is not a RMCR as defined by FNMA, FHLMC, and FHA/VA guidelines.” Is this report acceptable under RD AN 3587, “Applicant Credit History Verification”?

Per the National Office, this report would be acceptable.

Questions and Answers #27 (dtd 7/19/01)

1. What is the proper way to enter lender information into the Reservations System?

The submitting lender is either the branch of a mortgage institution or a mortgage loan broker. The approved lender is the underwriting lender. Some approved lenders retain the loan for servicing, others sell the loan servicing to another company.

In order to use the reporting capabilities of GLS to the fullest extent, it is necessary to identify all of the “players”. Most mortgage institutions have a separation of duties in origination and underwriting. So, if your local branch originates but does not underwrite the loan, then it is necessary to identify the local branch as the submitting lender and the underwriting branch as the approved lender. If the approved

lender does not retain the servicing, then it is necessary to indentify the servicing lender (if known at the time of reservation).

For example, Prism Mortgage in Dublin originates the mortgage. Another Prism office in Maryland underwrites the loan. Chase is the default servicer. The reservation would indicate Prism in Dublin as the submitting lender, the Prism office in Maryland as the approved lender, and Chase as servicing lender. Another lender in this type of arrangement includes United First Mortgage with VHDA as the servicer.

Changes to the lender database in GLS must always be performed by the State Office. Please email the necessary information to Michelle or Gwen.

2. How do we change the servicing office code in GLS?

To change the servicing office in a loan that has been obligated and or closed, you will have to do a 9G transaction to change the PLAS side. However, to change GLS, you will have to send a request to Ella Hemmer in the Finance Office. Fax your request to 314-539-3110. It is expected in the future to have a 9G transaction in GLS that will change both systems.

3. How do we change the loan amount or loan obligation date after obligation?

See the memo (second update) from Finance Office dated July 10, 2001.

4. How do we change the interest rate after the loan has been obligated?

The change can be made during the loan closing transaction.

5. How do we know when Finance Office has updated my obligation amount and/or obligation date?

Check the GLS request list screen. When you enter the information to find the borrower (reservation number, social security number, etc.), the borrower selection box should pop-up at the bottom. It should show the loan as obligated.

Questions and Answers #28 (dtd 7/19/01)

This edition was skipped!

Questions and Answers #29 (dtd 5/14/02)

1. When do we need complete Federal income tax returns for GRH applicants?

Returns are required for self-employed loan applicants only (see [RD AN 3727](#) for details). W-2's may be used for income verification for non-self-employed applicants in accordance with [RD AN 3683](#). As opposed to the Section 502 direct loan program, tax returns are not used to verify that income is properly reported.

2. Are 401K loan payments included in the total debt (TD) ratio?

No. In order to be consistent with other government lending programs, these loan payments will not be included in the TD ratio.

3. How do we handle loan processing when NITC is not operational?

We should continue to issue loan reservations if adequate funds are available. For the balance of fiscal year 2002, adequate funds will be available. Since the reservation confirmation form is not available when NITC is not operational, use Form RD 1980-81, *Request for Reservation of Funds*, to confirm the reservation to the lender. The local office staff should keep track of reservations issued and enter them immediately after NITC is available.

Local office staff should also issue Form RD 1980-18, *Conditional Commitment for Single Family Housing Loan Guarantee*. Please use the blank form option on GLS to prepare the necessary forms. Review of packages should be done using the GRH package review form (aka the yes/no checklist, a Virginia developed form) in order to check basic eligibility for the GRH program. The loan processing official may need to condition for some items such as the borrower cross-reference check. Loan packages should be entered immediately after NITC is available.

Loans closed by the lender prior to obligation in GLS will need to be sent to the Finance Office for closing. Please indicate in your cover memo the circumstances why the closing date preceeded the obligation date (NITC/GLS not available). Please send the memo plus RD form 1980-19, *Guaranteed Loan Closing Report*, to FO, mail code FC 350.

NOTE: all of the above would also apply if web GLS was not operational. However, you would not be able to use the blank form option in GLS. Therefore, it is important that local offices keep a small supply of blank forms available for this type of situation.

Questions and Answers #30 (dtd 8/6/02)

State Meeting Questions

1. Is a cistern an acceptable water source?

No. The HUD Handbook 4510.2 states springs, lakes, streams, and cisterns are not acceptable water sources. A recent search of *All Regs* and the HUD web site, show no change to this prohibition. Additionally, as discussed at the state meeting, we do not believe that these types of water sources have easily measured flow (adequate and dependable source) and, in some cases, are not accepted by the market place (a valuation issue).

2. Do we still require three years of rental verification?

In most cases, yes. If the rental information is not readily available and if the applicant has good credit (i.e. good credit scores), then three years of rental data would not be required.

Questions and Answers #31 (dtd 9/11/02)

1. We have a request for guarantee on a house that is 9 months old but is currently occupied. Do we need the construction inspections or the HUD Handbook certifications?

The definition of a newly constructed dwelling is a dwelling unit that is proposed construction, a unit under construction or a completed unit that is less than one year old and not occupied as a dwelling unit. Therefore, in this case the property is existing and must meet the requirements of the RD Instructions 1980.313, and, 1980.340(a), and, 1980.341(b)(1)(i).

2. How do we close out GRH accounts that have been refinanced (GRH to GRH)?

Send RD Form 1980-49 to the Finance Office FC-350. Indicate in Box 10 a "3", terminate guaranteed, refinancing. Or send a memo indicating the same.

3. Is it necessary to enter ethnicity into GLS borrower screens?

Yes. According to the Finance Office-“ As part of the implementation of the RDAPTS software into GLS, the borrower screens were changed to meet requirements by OMB and Civil Rights to capture the new race and ethnicity of applicants/borrowers. Under the new race and ethnicity codes, the applicant must be identified as either "Hispanic or Latino" or "Not Hispanic or Latino" and Race then selected. Race could be either one or multiple races. We are currently working to change the system to accommodate the ethnicity and multiple races. However, the input of a race is required. In some cases, the race of the borrower is not listed on the 1980-86 or the application. Also, the ethnicity may be listed, but not the race. The question that has arisen is: ‘What race should be entered into GLS if the ethnicity is Hispanic or Latino but no race is indicated?’ Based on direction from Cheryl Prejean Greaux of the Civil Rights Office, the race code of any customers identified as Hispanic should be converted to white and the ethnicity should be Hispanic/Latino if the race is not indicated by the applicant or lender.”

4. What is the proper way for lenders to notify USDA that a loan has been paid in full?

The lender should indicate paid off accounts in their quarterly electronic report to the Finance Office.

Questions and Answers #32 (dtd 10/25/02)

1. Do we include income from the care of adopted children in annual income?

No. When the Commonwealth provides payment to families who have adopted children with “special” needs, this income is used to help offset the expenses associated with the care of the child. It is not earmarked to assist in the shelter payment.

2. Are we to continue to check the interest rate for compliance with RD Instruction 1980.320?

No, this has become a loan servicing function. We will monitor compliance with maximum legal interest rates when making lender reviews at the state and national level. The State Office will begin tracking the Fannie Mae interest rate beginning October 28, 2002.

3. Will GLS, Data Filled Forms Option, automatically insert the .5% GRH fee for refinancings on the Conditional Commitment?

No, currently the system is not set up to do this. Please overwrite the 1.5% fee and insert the .5% fee.

Questions and Answers #33 (dtd 10/30/02)

1. What documents should we collect to determine that the VHDA Delegated Underwriter has underwritten the loan?

VHDA has directed their Delegated Underwriters to use Fannie Mae form 1008 to underwrite their loans. The lender should submit a copy of the signed 1008 with their request to Rural Development for the 1980-18. There is no need to collect the DU 300 or DU 600 forms.

2. Do we require a copy of the typed and signed loan application?

No. Many lenders do not have a typed and signed loan application available until after closing. If the handwritten, signed application has been substantially completed, we do not require a copy of the typed application. If the handwritten application is missing significant data but is signed, we will accept that along with an unsigned copy of the typed (and complete) application.

Questions and Answers #34 (dtd 5/20/03)

1. Are we permitted to gross-up non-taxable income (i.e. Social Security)? If so, in what amount?

Yes, section 1980.345(c)(2)(i) allows for grossing up of non-taxable income such as Social Security. Freddie Mac allows 25%; therefore, lenders will be allowed to gross up non-taxable income by 125%.

2. Can a non-borrowing spouse be on the property deed?

Yes. However, the lender's security interest in the property being financed would need to be perfected by requiring the spouse to sign the deed of trust.

3. How do we document the date of receipt for the loan commitment package and the loan-closing package?

In order to make clear the date of receipt of these critical documents, please date stamp RD Form 1980-21, "*Request for Conditional Commitment*" and RD Form 1980-19, "*Loan Closing Report*".

4. How long must a borrower wait after bankruptcy before qualifying for a GRH loan?

RD Instruction 1980.345(d)(2) requires 36 months from the discharge date. The Rural Development Direct SFH loan program (HB-1-3550) states that an applicant must be discharged from a Chapter 7 for 36 months and 12 months for a successfully completed Chapter 13. HUD Handbook 4155.1 states that two years must pass before a borrower is eligible for a FHA loan. The HUD Handbook also allows for a less period of time if there were extenuating circumstances beyond the applicants' control, that the applicant has exhibited the ability to manage his affairs, and that the events are not likely to occur. RD AN 3819, outlines when credit issues may be waived; with credit scores over 660 or other acceptable documentation as per RD Instruction 1980.345(d)(3). We are encouraging Rural Development staff and approved lenders to examine an applicant's total credit history. For those applicants with extenuating circumstances, who have shown the ability to manage their affairs since the bankruptcy, and that the event is not likely to occur, we recommend that the lender/underwriter document and consider a lesser period than 36 months.

5. When a borrower pays a collection or judgment account, is it necessary for the lender to order a new credit report?

The 1980-D does not require a new credit report be ordered; it only requires documentation that the account was paid. Therefore, a receipt/letter from the creditor is acceptable.