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SUBJECT: Wisconsin Rural Development Guaranteed Rural Housing (GRH) Update

TO: Approved GRH Lenders and Originators

Following is important information regarding the funding status and program delivery of Wisconsin's GRH loan program. Please distribute this information to all of your branch offices, correspondent banks, or mortgage originators that originate GRH loans in Wisconsin.

GRH FISCAL YEAR 2003 FUNDING STATUS

The Office of Management and Budget approved an additional apportionment of \$240 million for the GRH loan program on January 21st. These funds are available now and should provide for uninterrupted funds availability for the foreseeable future. Our National Office has been very successful in obtaining GRH funding this fiscal year even though the Government's operating budget has not yet been approved. Wisconsin's year to date usage of GRH funds is up nearly 50% compared to last year at this time. Approximately 20% of this year's loans are refinance transactions. Lenders should contact with their GRH borrowers to see if they qualify for refinancing at today's low rates. Thanks for your tremendous support!

ACCEPTABLE GRH APPRAISAL FORMATS

Attached is RD AN 3816, which allows the acceptance of both the Uniform Residential Appraisal Report (URAR) and the Quantitative Analysis Appraisal Report (Form 2055). Effective immediately, lenders may use either format for GRH purchase and refinance transactions. Lenders are encouraged to share RD AN 3816 with the appraisers they typically use for GRH loans. As a result of RD AN 3816, WI Rural Development will no longer require:

- A statement from the appraiser regarding the remaining economic life of the subject property.
- Color photographs of the subject property and comparable sales (note: this AN does require clear and descriptive original (or digital) photographs or black and white copies of the appraisal photographs).

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Rural Development (replaces the Farmers Home Administration) is an Equal Opportunity Lender.
Complaints of discrimination should be sent to: Secretary of Agriculture, Washington, D.C.

Since the Form 2055 format does not address the cost approach, appraisers will be required to provide an opinion for the value of the site in all cases. If the value of the site exceeds 30% of the appraised value, the appraiser must provide comments as to whether the site value is typical for the area and whether the site can be further subdivided for residential purposes. The site will be considered ineligible if it can be subdivided into two or more residential sites and its value exceeds 30% of the appraised value.

REVISED FORM RD 1980-21

Effective immediately, all lenders must use the attached Form RD 1980-21 (Rev. 01-03), Request for Single Family Housing Loan Guarantee, instead of using earlier revisions dates of this form. This form is attached, but is also available at <http://rdinit.usda.gov/regs> While the appearance of this form seems unchanged, there have been some significant changes in content that lenders need to be aware of.

- The “Borrower Acknowledgement Statement” has been incorporated into item 12 of the first page. Lenders will no longer need to have their applicants sign a separate statement regarding this.
- Item 13 on the first page includes a space where lenders can insert the CAIVRS confirmation number for each applicant. An alternative would be to show the CAIVRS confirmation number for each applicant on Form 1003 or 1008.
- The first paragraph of the “Applicant(s) Acknowledgements and Certifications” on page two is new and significantly impacts the applicants. If the Agency pays a loss to a lender on the applicant’s GRH loan, the Agency will seek reimbursement from the applicant as permitted under the Debt Collections Improvement Act (i.e. garnishments, offsets of income tax refunds, etc.).

PREVIOUS HOME OWNERSHIP

One of the eligibility criteria for the GRH loan program is that the applicants do not currently own adequate housing. This limited the scope of the GRH program to first time buyers and others who were renting that may or may not have had previous home ownership. Based on an analysis of the underwriting practices used in other states, WI Rural Development will now consider GRH applications from those applicants who currently own a home that is in the process of being sold (“move up buyers”). In these situations, the lender will be required to verify that the applicants’ existing home has been sold (with a signed copy of the HUD-1) prior to the issuance of the Loan Note Guarantee from the Agency.

HOLDING TANKS & NEW CONSTRUCTION

Lenders who finance new homes through the GRH program must obtain the required construction inspections described in RD Inst. 1980.341 (similar to the FHA loan program). It is noted that certain high LTV home financing programs prohibit the use of holding tanks with new construction. WI Rural Development will accept holding tanks with new construction when the

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lender provides documentation from the local zoning / sanitation department that (1.) No other type of septic system is feasible on the proposed site based on soil types, site size, etc; (2.) The installation of a holding tank septic system is permitted by the local land use zoning on the proposed site; and (3.) The proposed holding tank will be installed by a licensed professional according to state code.

ANCILLARY INCOME

Ancillary household income from such sources as overtime, tips, bonuses, commissions, seasonal work, part time work and unemployment compensation must be verified and included in the income calculations for compliance purposes. Lenders may use a 12 to 24 month average of this income when determining both the compliance and qualifying income of an applicant. The lender's underwriter must determine whether this type of income is dependable based on verification by the employer and the applicant's history of such income during the past 24 months. Underwriters should consider the compensating factors and layered risk factors (credit score, repayment ratios, payment shock, etc.) present on a case by case basis when determining their approach for calculating the applicants' qualifying income.

UNDERWRITING ANs REISSUED

Attached are three applicant underwriting ANs that were recently reissued to summarize the GRH program's requirements in the areas of repayment ratio waivers, analysis of payment shock, credit scores, and streamlined credit documentation. RD ANs 3817, 3818, and 3819 substantially restate the underwriting guidance given to lenders through RD ANs 3582, 3654, and 3693 that have previously expired. The underwriting guidelines require lenders to analyze the layered risk within a file (especially payment shock) and to properly document ratio waivers and credit waivers. Lenders must also identify legitimate compensating factors that justify and offset the exceptions that they are making to the normal GRH underwriting criteria.

If you have any questions regarding this memo, call (715) 345-7620 for Paul Bartlett at ext. 114 or Sue Kohnen at ext. 115.

/s/

PETER G. KOHNEN
Rural Housing Program Director

PGK: pjb

Attachments:
RD AN 3816
Form RD 1980-21
RD AN 3817
RD AN 3818
RD AN 3819