



SINGLE FAMILY HOUSING GUARANTEED LOAN PROGRAM: HB-1-3555 REVISIONS

Effective Date: March 9, 2016

Chapter 1: Overview

NO REVISIONS

Chapter 2: Record Retention

The original documents may be destroyed once a state has performed a quality control review to confirm the imaged documents have been scanned and indexed to quality expectations of accuracy and consistency. When disposing of documents, paper records will be shredded. The following records will be retained in accordance with Attachment 2-A:

1. *Form RD 3555-18/18E*, "Conditional Commitment for Single Family Housing Guarantee," with conditions, requirements and Lender Certification;
2. Promissory Note;
3. *Form RD 1980-19*, "Guaranteed Loan Closing Report," as applicable (those lenders electronically submitting loan closings in accordance with Chapter 16 of this Handbook are not required to submit *Form RD 1980-19*)
4. Loan Application(s);
5. Employment/Income Verifications and Income Determinations;
6. Credit Report(s);
7. ~~Documentation (printed hardcopy query results) from the System for Award Management (SAM) located at <https://www.sam.gov/portal/public/SAM/>.~~

2.3 B: Agency Record Maintenance-Mortgage Files

NEW: The "E" for an electronic notation was added to USDA forms as applicable.

Deleted: The requirement to verify through SAM is a lender responsibility when submitting a loan approval application to USDA.

8. 7. *Form RD 3555-21, "Request for Single Family Housing Guarantee" which includes the lender income worksheet(s);*
- 9.8. All forms related to the Agency's environmental review (*Forms RD 1940-22, "Environmental Checklist for Categorical Exclusions," 1940-20, "Request for Environmental Information," FEMA Form 81-93, "Standard Flood Determination Form,"* etc.);
- 10.9. Uniform Underwriting and Transmittal Summary, the lender's loan analysis and approval sheet, or final Guaranteed Underwriting System (GUS) Underwriting and Findings Report;
- 11.10. *Form RD 3555-17/17E, "Loan Note Guarantee"* and the final Amortization Schedule attached to the Loan Note Guarantee;
- 12.11. Confirmation requirements under 7 CFR 3555, Section 3555.202 have been met;
- 13.12. Appraisal Report(s);
- 14.13. *Form RD 1922-15, "Administrative Appraisal Review";*
- 15.14. National Office waivers, if applicable;
- 16.15. Final *Form HUD-1, "Settlement Statement"*;
- 17.16. Internal agency Checklist for Origination/Post Closing. See Chapter 15 of this Handbook;
18. ~~Lender Income Worksheets;~~
- 19.17. Origination and loan closing lender stack list;
- 20.18. Any other forms deemed necessary for record retention by the state.

Conditional Commitment	
<input type="checkbox"/>	<ul style="list-style-type: none"> ✓ Form RD 3555-18/<u>18E</u> and ✓ If required, conditions to Form RD 3555-18/<u>18E</u> and ✓ Lender Certification (completed and executed by lender – POST CLOSING). Lenders who submit closed loans electronically in accordance with Chapter 16 of this Handbook are not subject to submittal of the Lender Certification.
<input type="checkbox"/>	System for Award Management (SAM)
	✓ Queried result or lender certification on Form RD 1980-21
<input type="checkbox"/>	Request for Single Family Housing Loan Guarantee
	<ul style="list-style-type: none"> ✓ Form RD 3555-21, <u>with income worksheet</u> completed and executed by lender and applicant(s)
<input type="checkbox"/>	Loan Note Guarantee and Amortization Schedule
	<ul style="list-style-type: none"> ✓ Form RD 3555-17 /<u>17E</u> – completed/executed by Rural Development

2.3 B: Agency Record Maintenance-Mortgage Files

Clarification: A complete Form RD 3555-21 must include the income worksheet (pages 5-7).

NEW: "E" was added to Form RD 3555-17 to indicate if it was issued electronically by USDA.

Deleted: The income worksheet becoming is part of Form RD 3555-21, therefore "Lender Income Worksheets" was removed as a separate item.

Attachment 2-A: Minimal Essential Documents Matrix (Agency Use Only)

NEW: "18E" was added to Form RD 3555-18 to indicate the form was issued electronically by USDA.

Deleted: The requirement for USDA to image results of the SAM check is removed.

Clarified: Form RD 3555-21 must include the income worksheet to be complete.

NEW: "17E" was added to Form RD 3555-17 to indicate the form was issued electronically by USDA.

Chapter 3: Lender Approval

- A State Housing Finance Agency (SHFA). Evidence that a private sector lender is approved by a SHFA to participate in SHFA programs does not represent an automatic approval to participate in the guaranteed program.

- The Office of Thrift Supervision (OTS);

A Lender Review Guide is provided as Attachment 3-B, for use by the Agency, and a ~~Quality Control~~ Quality Control (QC) Overview to assist in analyzing the lender's QC plan is provided in Attachment 3-C. ~~may be found on the Agency's SharePoint website at: https://rd.sc.egov.usda.gov/teamrd/help/sfh/ to assist states with their review of the lender's request. Choose Single Family Housing Information then Guaranteed Program Information from the menu to navigate to the guide.~~

B. Review Circumstances and Factors

- New Lender Compliance Review. Rural Development may review loans developed originated by a newly eligible lender, to ensure compliance with, and understanding of, Agency regulations. Thereafter, the lender will be subject to a review provided in Paragraph 3.78 C of this chapter.

ATTACHMENT 3-A

LENDER APPROVAL CHECKLIST

ATTACHMENT 3-B LENDER ELIGIBILITY GUIDE New Lender/Renewing Lender

3.2: Lender Approval Criteria

A. Approval from Another Recognized Source

Clarification: Approval with a SHFA does not yield an automatic USDA lender approval. Lenders must submit all requirements of 3555.52 and Attachment 3-A.

3.2: Lender Approval Criteria

B. Approval by Demonstrated Ability 4. Federal Oversight

Deleted: The OTS is no longer a government office.

3.4: Agency Review

Revision: "Lender Review Guide" is now Attachment 3-B.

NEW: Attachment 3-C is a Quality Control Review Guide to ensure plans meet USDA requirements.

Deleted: The USDA SharePoint address has been deleted due to future changes.

3.8: Monitoring a Lender's Origination and Servicing of Loans

B. Review Circumstances and Factors

Revised: The lender review section is now located in 3.8 C.

Attachment 3-A: Lender Approval Checklist

No revisions.

Attachment 3-B: Lender Approval Eligibility Guide New/Renewing Lender

NEW: This new guide assists USDA to review and document approved lender files.

Attachment 3-C
Quality Control Overview

A Reference for Reviewing Quality Control Plans

ATTACHMENT 3-BD

NEW LENDER TRAINING

**Attachment CE - SFHGLP LENDER APPROVAL
Rural Development Review**

Attachment 3-C: Quality Control Overview

NEW: This new guide assists USDA to review quality control plans submitted by lenders/servicers. Lenders may refer to this attachment to ensure quality control plans are complete.

Attachment 3-D: New Lender Training

Revised: This attachment was formerly Attachment 3-B.

Attachment 3-E: SFHGLP Lender Approval

Revised: This attachment was formerly Attachment 3-C.

Chapter 4: Lender Responsibilities

NO REVISIONS

Chapter 5: Origination and Underwriting Overview

- **Credit.** Does the credit record appear to meet the program guidelines described in Chapter 10? The applicant must have a credit history that demonstrates their ability and willingness to repay the loan. GUS is unable to accept supplemental credit reports.

5.2: Requesting a Guarantee

A. Preliminary Determination of Applicant Eligibility

Clarification: Supplemental credit reports pulled outside of GUS cannot be uploaded into GUS.

to obtain a traditional conventional credit loan. Traditional conventional credit is defined for Agency purposes as:

- The applicant has available personal non-retirement liquid asset funds of at least 20% of the purchase price that can be used as a down payment;
- The applicant can, in addition to the 20% down payment, pay all closing costs associated with the loan;
- The applicant can meet qualifying ratios of no more than 28% PITI and 36% TD when applying the 20% down payment;
- ~~The applicant demonstrates qualifying credit for such a loan. Qualifying credit consists of at least two credit bureau trade lines open and paid as agreed for at least a 24-month period to include that:~~
- ~~The applicant was not currently 30 days or more past due on any trade line; and~~
- ~~The applicant had not been 60 days or more past due on any trade line over the past 24-month period; and~~
- ~~The applicant did not have a foreclosure or bankruptcy in their credit history over the past 36-month period.~~
- The conventional mortgage loan term is for a 30-year fixed rate loan term without a condition to obtain private mortgage insurance (PMI).

Assets should never be overvalued as it affects the risk assessment provided by the automated underwriting system and misrepresents the file presented for a Conditional Commitment for Loan Note Guarantee. A two month average monthly balance of liquid assets most accurately represents the true value of the account since accounts, such as checking accounts often fluctuate significantly during the month from deposit to average monthly balance. The lesser of the two month average balance or actual balance (as reported on the most recent statement) - ~~true calculated value~~ will be input on the “Assets and Liabilities” page of GUS if utilized in the underwriting decision. In lieu of entering assets in GUS, the lender may underwrite to the most conservative approach with no consideration of assets on the “Assets and Liabilities” page and underwriting recommendation. Refer to Paragraph 9.3 for documentation standards and examples of calculating the average monthly balance of assets.

F. Omitting Liabilities

If a lender omits an adverse trade line when utilizing GUS and receives an “Accept” the applicant explanation letters and supportive documentation of adverse trade lines will be retained by the lender. The “Notes” section of the “Asset and Liabilities” page will reflect the lenders basis for omitting the trade line.

5.2: Requesting a Guarantee

A. Preliminary Determination of Applicant Eligibility

Deleted: Conventional credit guidelines change often therefore specific credit details for conventional credit determination have been removed.

5.3: Utilizing the Guaranteed Underwriting System (GUS)

E. Cash Reserves

Revised: Assets utilized for reserves should be calculated as the lesser of the two month average balance or the actual balance on the most recent statements.

Clarification: Assets are not required to be entered on the 1003 or in GUS.

Clarification: Assets must be considered in the annual income calculation.

5.3: Utilizing GUS

F. Omitting Liabilities

NEW: Liabilities marked “Omit” on the “Asset and Liabilities” GUS application page must have the “Notes” data field completed with an explanation to support the exclusion of the debt.

Due to this new HB entry as “F”, the remaining portions of 5.3 have been revised as applicable.

4. Lender's worksheet for documenting eligible household income and repayment income. The worksheet is part of Form RD 3555-21. Refer to Chapter 9 for additional guidance.

Mortgage loan documents will be delivered electronically through the Agency's automated system of receiving documents. This is the preferred method. In cases when the system may be unavailable or a transition to the system is occurring, documents may be photocopied, scanned, emailed, faxed or delivered by regular or express mail through. All documents must be clear and legible. The preferred method for receiving documents from lenders is electronic through the state general email delivery box. It is anticipated that all lenders will utilize the automated method available. A list of state general email delivery addresses may be found at the following website: <https://usdalinc.se.e.gov.usda.gov/USDALineTrainingResourceLib.do>. Scroll to "Loan Origination." The necessity to collect an original Form RD 3555-21 is not required. A photocopy, scanned, emailed or faxed Form RD 3555-21 is acceptable.

Some data changes do not affect the outcome of an underwriting recommendation. Once a mortgage loan has been sent to the Agency as a "Final Submit," the following data changes do not require that the GUS loan application be updated:

- A **decrease** in loan interest rate
- A **decrease** in loan amount
- A **decrease** of mortgage or personal liabilities
- An **increase** of assets
- The bureau update of a credit report due to the expiration of the credit report (expires at 120 days prior to loan closing) after a final submit has occurred by the lender and a Conditional Commitment has been issued; yet prior to loan closing as long as no adverse impact has occurred that would affect the outcome of the underwriting recommendation. Lender must retain the updated credit report in their permanent lender's case file.

Chapter 6: Loan Purposes

- **Reasonable Lender Fees.** Reasonable lender fees may include an origination fee and other fees and charges. Lender fees and charges must meet the points and fees limits published by the Consumer Financial Protection Bureau (CFPB) in the Federal Register at 12 CFR 1026.43(e)(3) and cannot exceed those charged other applicants by the lender for similar transactions such as FHA-insured or VA-guaranteed first mortgage loans. Payment of other fees, charges, or commissions, such as finder's fees or placement fees for the referral of a prospective applicant to the lender or administrative fees charged to the buyer by the realtor is prohibited. Discount points as described in Paragraph 6.3 of this Chapter. Lender fees combined with closing costs may not exceed three percent of the total loan amount, unless further flexibility is provided through guidance published by the Consumer Financial Protection Bureau (CFPB)'s Ability to Repay and Qualified Mortgage (ATR/AQM) rule. The SFHGLP up-front guarantee and annual fee is not included in the three percent lender fees and charges calculation.

5.3: Utilizing GUS

J. GUS Underwriting Recommendations: Accept/Eligible

Clarification: Item #4 under GUS Accept recommendation: The income worksheet is part of a complete Form RD 3555-21.

5.3: Utilizing GUS

J. GUS Underwriting Recommendations: Accept/Eligible

NEW: Lenders should submit documents electronically to USDA.

Deleted: The list of USDA State general email boxes has been removed from USDA LINC.

5.3: Utilizing GUS

M: Resubmission Policy

NEW: When the conditional commitment has been issued by USDA and the credit report in GUS is expired: Lenders may pull a new credit report outside of GUS to ensure there are no new debts, new credit, increases in liability payments, etc. If there are no changes, the issued conditional commitment will remain valid. No release, correction, or resubmission will be required.

6.2: Eligible Loan Purposes

C. Reasonable and Customary Expenses Associated with Purchasing a Dwelling

Clarification: Lender charges and fees must meet the requirements set forth by the CFPB. This addition reflects language that was near the bottom of the paragraph.

Deleted: Lender fee language was deleted because it was added at the beginning of this paragraph.

Deleted: Due to changing guidelines, the specific "three percent" reference was removed. Defer to current published CFPB guidelines.

- **Closing Costs.** Closing costs that are reasonable and customary for the area can be paid for with loan funds. Closing costs cannot exceed those charged other applicants by the lender for similar transactions such as FHA-insured or VA-guaranteed first mortgage loans. If the lender does not participate in such programs, the loan closing costs may not exceed those charged other applicants by the lender for a similar program that requires conventional mortgage insurance or a guarantee. There is a six percent limit on the amount of the seller's contribution or other interested party, under the SFHGLP. The amount of seller contribution, or other interested party, must represent an eligible loan purpose in accordance with this Paragraph. Closings costs and/or prepaid items paid by the lender through premium pricing are not included in the seller contribution limitation. In addition, closing costs, including lender fees, may not exceed ~~three percent of the total loan amount as described in this section under "Reasonable Lender Fees."~~ The SFHGLP up-front guarantee fee is not included in the lender fees calculation.

6.2: Eligible Loan Purposes

C. Reasonable and Customary Expenses Associated with Purchasing a Dwelling

Deleted: Due to changing guidelines, the specific "three percent" reference was removed. Defer to published CFPB guidelines.

- The maximum loan amount, for the stream-lined refinance option, cannot exceed the original amount of the loan to be refinanced. This option includes financing the principal amount of the loan to be refinanced, current accrued interest, plus a reasonable customary reconveyance fee plus the guarantee fee up to the original ~~purchase principal of the amount of loan to be refinanced amount.~~

6.2: Eligible Loan Purposes

D. Refinance

3. Existing Section 502 Guaranteed Loans

a. Loan Terms and Conditions

Clarification: Streamlined refinance transactions may not exceed the original loan amount at the time of purchase.

d. Closing Costs and Lender Fees

- The lender may establish charges and fees for the refinance loan, provided they are the same as those they charge other applicants for similar types of transactions. Lenders and the Agency should make every effort to ensure that applicants are not being charged excessive fees as part of the new loan. Discount points are ~~not~~ eligible to be financed; ~~except for low-income applicants to "buy-down" the interest rate.~~ In such cases, discount points financed will not exceed two percentage points of the loan amount and must represent a reduction to the interest rate.

6.2: Eligible Loan Purposes

D. Refinance

3. Existing Section 502 Guaranteed Loans

d. Closing Costs and Lender Fees

Deleted: Discounts points may be financed for all applicants (low and moderate income).

6.3 PROHIBITED LOAN PURPOSES

Guaranteed loan funds cannot be used for any of the following purposes.

- **Loan Discount Points.** Loan discount points, other than to reduce the effective interest rate, cannot be financed as part of the loan. ~~However, low-income applicants may finance discount points if they are.~~ Discount points must be reasonable and customary for the area and cannot be more than those charged other applicants for comparable transactions. Permissible discount points financed may not exceed two percentage points of the loan amount for a non-streamlined refinance. Any loan discount points and loan origination fees must be itemized separately on the settlement statement so that the Agency can accurately identify the amount of the loan used for loan discount points. Loan discount points representing fees other than to reduce the effective interest rate, such as to compensate for a low credit score or low loan amount are ineligible. The lender must begin with an eligible interest rate prior to reducing the effective interest rate.

6.3: Prohibited Loan Purposes

• Loan Discount Points

NEW: Discount points may be financed for all applicants (low and moderate income).

Eligibility and Underwriting	<p>Use of the Guaranteed Underwriting System (GUS)</p> <ul style="list-style-type: none"> ▪ Non-streamlined refinance: loans may be originated with the assistance of GUS. ▪ Streamlined refinance: loans may be originated with the assistance of GUS. ▪ Reduced documentation may be submitted for loans receiving an ACCEPT recommendation in GUS. Lenders are required to review the GUS Underwriting Findings Report for a detailed list of required documentation as quality control messages can flag additional requirements. An abbreviated file submission includes: <ul style="list-style-type: none"> • An appraisal report, <u>as applicable (not required for a streamlined refinance product).</u> • FEMA Form 086-0-32, "Standard Flood Hazard Determination Form." • Form RD 3555-21, "Request for Single Family Housing Loan Guarantee." The form should be executed by the lender and borrower(s). • Income calculation worksheet for household eligibility income and repayment income. • Copy of the final GUS Underwriting Findings Report.
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Attachment 6-A: Refinancing Rural Development Mortgages

Clarification: Appraisals are only required to be submitted to USDA as applicable.

Eligibility and Underwriting	<p>Closing Costs and Lender Fees</p> <ul style="list-style-type: none"> ▪ The lender may establish charges and fees for the refinance loan, provided they are the same as those they charge other applicants for similar types of transactions – such as Federal Housing Administration (FHA) or Veterans Affairs (VA). ▪ Examples of reasonable and customary fees and charges: <ul style="list-style-type: none"> • actual cost of the appraisal, inspection or credit reports; • imposed verification charges; • title examination and title insurance fees; • attorney fees; • settlement and recording and/or courier/wire/notary fees; • real estate taxes for establishing an escrow; • test or treatment fees; • document preparation fees (if prepared by a third party); and • <u>origination fee.</u> ▪ Lenders and the Agency should make every effort to ensure that applicants are not charged excessive fees as part of the new loan. ▪ Discount points may be financed in connection with the new loan request, <u>when the existing borrower's adjusted household income is at or below the low-income limits, as determined by Appendix 5 of this Handbook.</u> Also see: http://eligibility.sc.egov.usda.gov/eligibility/welcomeAction.do. Select <u>Guaranteed</u> from the navigation menu under <u>Income Limits</u>. ▪ Permissible discount points financed in accordance with this Chapter will not exceed two percentage points of the loan amount for a non-streamlined refinance. Financed discount points must be used to permanently reduce the interest rate.
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Attachment 6-A: Refinancing Rural Development Mortgages

NEW: Discount points may be financed for all applicants (low and moderate income).

Chapter 7: Loan Terms and Conditions

NO REVISIONS

Chapter 8: Applicant Characteristics

A. Owning a Dwelling [7 CFR 3555.151 (e)]

An applicant who owns a dwelling to which they will retain ownership is eligible for a guaranteed loan to purchase another home if all of the criteria below are met:

- The homeowner's current dwelling is not financed by a Rural Development guaranteed or direct Section 502 or 504 loan or active grant (the grant agreement has not expired);
- The homeowner is financially qualified to own more than one house (the loan applicant is limited to owning one single family housing unit other than the one associated with the loan request);
- The homeowner will occupy the home financed with the guaranteed loan as their primary residence throughout the term of the loan.
- The current home owned no longer adequately meets the applicants' need. Manufactured housing units that are not fixed on a permanent foundation are considered functionally inadequate. The determination that the current home no longer adequately meets the applicant's needs must include documentation of a significant status change in the circumstances of the borrower that require immediate remedy. Examples of changes in status could include, but are not limited to:

8.2: Applicant Eligibility Requirements A. Owning a Dwelling

Clarification: This addition of "all of the criteria below are met" reinforces each bullet must be met to retain a dwelling.

Clarification: Manufactured homes that are not fixed on a permanent foundation are functionally inadequate and will not render an applicant ineligible if they retain this unit. All costs associated with this unit must be included in the total debt ratio.

- Severe overcrowding which is defined as more than 1.5 household residents per room. The room count generally includes a living room, dining room, kitchen, den, recreation room, and bedroom(s). Room counts do not include the bathroom or an entry hall/foyer. The lender must obtain verification that overcrowding has existed for more than 90 days and will persist for at least nine (9) months into the future.
- The disability or limited mobility of a permanent household resident that cannot be accommodated without substantial retrofitting of the current property, e.g., the installation of a ramp, an elevator or stair-lift, or extra-wide doors and hallways. Lender must obtain verification of the change in status, the existing property deficiencies, and the suitability of the new property.
- The applicant is has ~~relocated~~ with a new employer, or being transferred by the current employer to an area not within reasonable and locally recognized commuting distance.

Form RD 3555-21, "Request for Single Family Housing Loan Guarantee" requires both the lender and the applicant to certify that the applicant is unable to secure credit from other sources upon terms and conditions which the applicant can reasonably fulfill. The certification can be made if the applicant does not meet the requirements to obtain a traditional conventional credit loan. Traditional conventional credit is defined for Agency purposes as:

- The applicant has available personal non-retirement liquid verifiable asset funds of at least 20% of the purchase price that can be used as a down payment;
- The applicant can, in addition to the 20% down payment, pay all closing costs associated with the loan;
- The applicant can meet qualifying ratios of no more than 28% PITI and 36% TD when applying the 20% down payment;
- ~~The applicant demonstrates qualifying credit for such a loan. Qualifying credit consists of at least two credit bureau trade lines open and paid as agreed for at least a 24-month period to include that:~~
 - ~~The applicant was not currently 30 days or more past due on any trade line; and~~
 - ~~The applicant had not been 60 days or more past due on any trade line over the past 24-month period; and~~
 - ~~The applicant did not have a foreclosure or bankruptcy in their credit history over the past 36-month period.~~
- The conventional mortgage loan term is for a 30- year fixed rate loan term without a condition to obtain private mortgage insurance (PMI).

If the applicant meets the cumulative criteria of traditional conventional credit, as defined by the Agency above; the applicant is ineligible for the SFHGLP.

It remains the underwriter's responsibility to support the criteria of this Section. Documentation to support ineligibility for conventional credit will be retained in the lender's permanent case file.

8.2: Applicant Eligibility Requirements

A. Owning A Dwelling

Clarification: Additional language is added to define "room" for determination of overcrowding.

Clarification: Relocation may be pending or already occurred.

8.2: Applicant Eligibility Requirements

B. Obtaining Credit

Clarification: Assets must have verified evidence.

Deleted: Conventional credit guidelines change often therefore specific credit details for conventional credit determination have been removed.

NEW: Reminder that lenders verify and retain evidence regarding eligibility for conventional credit.

Liquid assets for conventional credit down payment purposes typically consist of cash or cash equivalents. Cash or cash equivalents include funds in the applicant's checking or savings accounts, or investments in stocks, bonds, mutual funds, certificates of deposit, and money market funds, unless they were encumbered (pledges as collateral) or otherwise inaccessible without substantial penalty. Cash equivalents do not include funds in Individual Retirement Accounts, 401(k) accounts, Keogh accounts, or other retirement accounts that are restricted and may not be accessed without incurring substantial monetary penalties. Educational college savings plans, such as a 529 plan, which incur a penalty to withdraw, is not considered a cash equivalent. Owning land is not considered a liquid asset. Land cannot typically be converted to cash quickly without minimal impact to the price received and ease in transfer of ownership.

- **Active duty military applicants.** Active duty military applicants may be eligible for the SFHGLP. They must occupy the property as their principal residence. The military applicant must express intent to meet occupancy requirements upon his/her discharge from the service. A military serviceperson who cannot physically reside in a property because they are on active duty will be considered to meet occupancy requirements defined in § 3555.10 of 7 CFR 3555 if:

provided proof that a discharge will be received within a reasonable period of time, usually within 1 year, and

- The serviceperson's family will continue to occupy the property as their principal residence, if the serviceperson is assigned to a combat zone, other hazardous duty area or another duty station prior to discharge. See Chapter 9 for additional information on calculating military income for repayment of the loan request.

E. Not Having a Suspension or Debarment [7 CFR 3555.151(g)]

Individuals who have been suspended or debarred from participation in Federal programs are not eligible for a guaranteed loan. The approved lender, or their agent, is responsible for screening the applicant and parties to the transaction on the U.S. General Services Administration's (GSA) System for Award Management (SAM.gov) website as part of their eligibility determination of the applicant. Lenders who utilize an automated method that creates a report, similar to a watch list, which performs a check of the SAM website, will meet the criteria of this check. Additional information regarding parties ineligible to participate in the SFHGLP transaction can be found in Section 15.2 of Chapter 15 of this Handbook. The lender will document their permanent file with the date and screen print of the results of that check. Form RD 3555-21 will document the lender performed the check. The check should occur prior to the request for commitment and be no greater than 30 days prior to loan closing, otherwise the lender will update their documentation by performing another check of SAM. Rural Development staff is not required to rescreen an applicant upon request of a loan guarantee.

8.2: Applicant Eligibility Requirements B. Obtaining Credit

Clarification: Educational savings plans/529 plans with penalties to remove funds are not considered in the asset calculation for conventional credit qualification.

8.2: Applicant Eligibility Requirements B. Obtaining Credit

Deleted: Military applicants are not required to provide evidence of their discharge within one year.

8.2: Applicant Eligibility E. Not Having a Suspension or Debarment

Clarification: Lender systems that check SAM in addition to other sites are acceptable.

Chapter 9: Income Analysis

9.3 ANNUAL INCOME [7 CFR 3555.10]

Annual income is used as the basis for computing adjusted annual income and is based on anticipated income for the coming year. Income from all adult household members, not just parties to the note, must be considered when computing annual income. This income calculation is utilized to determine the eligibility of the household for the SFHGLP. Attachment 9-C of this Chapter describes in detail which sources of income to count and which to exclude when calculating annual income. This paragraph provides additional information to help the lender calculate annual income properly.

Section 1: Qualifying Income 9.3: Annual Income

Deleted: Reference to Attachment 9-C.

~~Income received for the care of foster children or foster adults who live in the household.~~

Section 1: Qualifying Income

9.3: Annual Income

A. Income that is never counted

Deleted: Foster care payments have been moved to “Special Purpose Payments” in 9.3.

- ~~Reparation payments paid by a foreign government arising out of the Holocaust. If any applicant for an Agency loan was deemed ineligible because the applicant's income exceeded the low-income limit because of the applicant's Nazi persecution benefits, the Approval Official Loan should notify the applicant to reapply for a loan.~~

Section 1: Qualifying Income

9.3: Annual Income

A. Income that is never counted

NEW: The addition of reparation payments was added to this section from Attachment 9-C.

- ~~Deferred periodic payments of supplemental security income and Social Security benefits that are received in a lump sum amount or in prospective monthly amounts.~~

Section 1: Qualifying Income

9.3: Annual Income

A. Income that is never counted

NEW: Lump sum payments or deferred payments from Social Security benefits are excluded from annual income.

- ~~Special-Purpose Payments. These are payments made to the applicant's household that would be discontinued if not spent for a specific purpose. Payments which are intended to defray specific expenses of an unusual nature and which are expended solely for those expenses should not be considered as income. Examples include, but are not necessarily limited to, the following:~~
- ~~Medical Expenses. Funds provided by a charitable organization to defray medical expenses, to the extent to which they are actually spent to meet those expenses.~~
- Supplemental Nutrition Assistance Program (SNAP) (formerly the Food Stamp Program).
- Income received for the care of foster children or foster adults who live in the household.

Section 1: Qualifying Income

9.3: Annual Income

A. Income that is never counted

NEW: “Special-Purpose Payments” is a new section and provides guidance for multiple income types.

- Amounts received by any family member participating in programs under the Workforce Investment Act of 1998 (29 U.S.C. 2931):
 - Amounts received by a person with a disability that are disregarded for a limited time for purposes of Supplemental Security Income eligibility and benefits because they are set aside for use under a Plan to Attain Self-Sufficiency (PASS).
 - Amounts received by a participant in other publicly assisted programs which are specifically for or in reimbursement of out-of-pocket expenses incurred (special equipment, clothing, transportation, child care, etc.) and which are made solely to allow participation in a specific program.
 - Incremental earnings and benefits resulting to any family members from participation in qualifying State or local employment training programs (including training programs not affiliated with a local government) and training of a family member as resident management staff. Amounts excluded by this provision must be received under employment training programs with clearly defined goals and objectives, and are excluded only for the period during which the family participates in the employment training program.
 - Allowances, earnings and payments to AmeriCorps participants under the National and Community Service Act of 1990 (42 E.S.C. 12637{d}).
- Payments received on reverse amortization mortgages (these payments are considered a drawdown on the applicant's assets).
- Any amount of crime victim compensation received through crime victim assistance (or payment or reimbursement of the cost of such assistance) because of the commission of a crime against the applicant under the Victims of Crime Act (42U.S.C. 10602).
- Any allowance paid under 38 U.S.C. 1805 to a child suffering from spina bifida who is the child of a Vietnam veteran.
- Payments by the Indian Claims Commission to the Confederated Tribes and Bands of Yakima Indian Nation or the Apache Tribe of Mescalero Reservation (Pub.L. 95-433).
- Housing assistance payment (HAP) (HUD'S Housing Choice Voucher Homeownership Program, sometimes referred to as Section 8 for Homeownership). The HAP is not included in the household's annual income for the purpose of determining the income category in which the household falls or determining payment assistance.

Income Sources Considered for Annual Income. Current income and family circumstances should be used to estimate the household's annual income over the coming 12 months, unless there is verifiable evidence of a likely change in circumstances or historical data does not support current income. For annual income, consider income that is attributable to any household member.

- Use the gross amount, before any payroll deductions, of base wages and salaries, overtime pay, commissions, fees, tips, bonuses, housing allowances and other compensations for personal services of all adult members of the household. If a cost of living allowance or a proposed increase in income has been estimated to take place on or before loan approval, it will be included in the annual income calculation to determine household eligibility for the SFHGLP.

Section 1: Qualifying Income

9.3: Annual Income

A. Income that is never counted

NEW: The addition of Workforce Investment Act payments was added.

Section 1: Qualifying Income

9.3: Annual Income

A. Income that is never counted

NEW: Additional income types have been added for clarification.

Section 1: Qualifying Income

9.3: Annual Income

B. Projecting Annual Income for a 12 Month Period

NEW: Documented increases to income for an adult household member that will occur on or before loan closing must be included in the annual income calculation.

- The income of an applicant's spouse, unless the spouse has been living apart from the applicant for at least 3 months (for reasons other than military or work assignment), or court proceedings for divorce or legal separation have been commenced will be included in the calculation of annual income.

Section 1: Qualifying Income

9.3: Annual Income

B. Projecting Annual Income for a 12 Month Period

NEW: Guidance for separated spousal income (formerly part of RD Instruction 1980-D) has been added.

- The net income from the operation of a farm, business, or profession. The following provisions apply:
 - Expenditures for business or farm expansion, capital improvements, or payments of principal on capital indebtedness shall not be used as deductions in determining income. A deduction is allowed in the manner prescribed by Internal Revenue Service (IRS) regulations only for interest paid in amortizing capital indebtedness.
 - Farm and non-farm business losses are considered "0" in determining annual income. A negative amount must **not** be used to offset other family income.
 - A deduction, based on straight line depreciation, is allowed in the manner prescribed by IRS regulations for the exhaustion, wear and tear, and obsolescence of depreciable property used in the operation of a farm, business, or profession by a member of the household. The deduction must be based on an itemized schedule showing the amount of straight-line depreciation.
- Any withdrawal of cash or assets from the operation of a farm, business, or profession, or salaries or other amounts distributed to family members from the farm, business, or profession, will be included in income, except to the extent the withdrawal is for reimbursement of cash or assets invested in the operation by a member of the household.
- A deduction is allowed for verified business expenses, such as lodging, meals, and fuel, for business trips made by salaried employees, such as long-distance truck drivers, who must meet these expenses without reimbursement.
- For home-based operations such as child care, product sales, and the production of crafts, housing related expenses for the property being financed such as mortgage interest, real estate taxes, and insurance, which may be claimed as business expense deductions for income tax purposes, will not be deducted from annual income.
- Interest, dividends, and other net income of any kind from real or personal property, including:
 - The share received by adult members of the household from income distributed from a trust fund.
 - Any withdrawal of cash or assets from an investment except to the extent the withdrawal is reimbursement of cash or assets invested by a member of the household.
- Where the household has net family assets in excess of \$5,000, the greater of the actual income derived from all net family assets or a percentage of the value of assets based on the current passbook savings rate.

Section 1: Qualifying Income

9.3: Annual Income

B. Projecting Annual Income for a 12 Month Period

NEW: Guidance for net income from farm, business, or profession (formerly part of RD Instruction 1980-D) has been added.

Section 1: Qualifying Income

9.3: Annual Income

B. Projecting Annual Income for a 12 Month Period

NEW: Guidance for the withdrawal of assets and verified business expenses (formerly part of RD Instruction 1980-D) have been added. Guidance for home based operations is also included.

Section 1: Qualifying Income

9.3: Annual Income

B. Projecting Annual Income for a 12 Month Period

NEW: Interest, dividends, and other net income/asset guidance (formerly part of RD Instruction 1980-D) has been added.

- The full amount of periodic payments received from Social Security (including Social Security received by adults on behalf of minors or by minors intended for their own support), annuities, insurance policies, retirement funds, pensions, disability or death benefits, and other similar types of periodic receipts. However, deferred periodic amounts from supplemental income and social security benefits that are received in a lump sum amount or in prospective monthly amounts are not counted.
- Payments in lieu of earnings, such as unemployment and disability compensation, worker's compensation, and severance pay.
- Public assistance unless excluded by law.
- Periodic allowances, such as:
 - Alimony and child support awarded by the court in a divorce decree or separation agreement unless the applicant certifies the payments are not received, and the applicant provides documentation that he or she has taken all reasonable legal actions to collect amounts due, including filing with the appropriate courts or agencies responsible for enforcing payment; or
 - Recurring monetary gifts or contributions from an organization or person who is not a member of the household.
- All regular pay, special pay (except for persons exposed to hostile fire), and allowances of a member of the armed forces who is the applicant or spouse, whether or not that family member lives in the home.

Self-Employed Income. Self-employed income will be verified with two consecutive years of signed Federal income tax returns filed with the IRS including all applicable attached schedules. Signed business tax returns for the most recent two years with all applicable schedules, year-to-date profit and loss and balance statements are required, but are not required to be audited. As an alternative, the lender may obtain IRS-issued transcripts of the applicant's tax returns, as long as the transcripts include the information from all applicable schedules. In all cases, the lender must obtain sufficient documentation to support their determination of income. The lender is encouraged to utilize Fannie Mae Form 1084, "Cash Flow Analysis" and Fannie Mae Form 1088, "Comparative Income Analysis" to document a trend analysis for the applicant's business. A business with a loss will be considered zero for the annual income calculation.

Section 1: Qualifying Income

9.3: Annual Income

B. Projecting Annual Income for a 12 Month Period

NEW: Social Security, unemployment/disability and public assistance guidance (formerly part of RD Instruction 1980-D) has been added.

Section 1: Qualifying Income

9.3: Annual Income

B. Projecting Annual Income for a 12 Month Period

NEW: Periodic allowances (formerly part of RD Instruction 1980-D) has been added.

Section 1: Qualifying Income

9.3: Annual Income

B. Projecting Annual Income for a 12 Month Period

NEW: Regular and Special pay types for military household members (formerly part of RD Instruction 1980-D) has been added.

Section 1: Qualifying Income

9.3: Annual Income

E. Verification of Income

1. Full Documentation

Clarification: Business losses are considered "zero" for annual income calculations.

Net Family Assets Income. Documentation of income from net family assets in accordance with 7 CFR 3555.152(d), must be included in the calculation of annual income. Lenders utilizing the Agency's automated underwriting system, GUS, will verify and document assets as part of the annual income calculation to determine the eligibility of the household. Income derived from assets, in accordance with 7 CFR 3555.152(d), will appear on the Eligibility page of GUS. Assets are not required to be populated on the Assets and Liabilities page of GUS. If populated, the lender is representing they have confirmed assets of the amount input have been verified in accordance with this Chapter. See Paragraph 9.4 of this Chapter for calculation and documentation of income from net family assets.

Gift funds provided at loan closing. If the gift funds are not verified in the applicant's account at time of application and the transfer occurs at closing, the lender remains responsible for obtaining verification that the closing agent received funds from the donor for the amount of the purported gift and that the funds came from an acceptable source. Acceptable documentation includes 1) if the transfer of funds is by certified check, obtain a bank statement to document the withdrawal from the donor's account with a copy of the certified check or 2) if the transfer of gift funds is from a donor purchased cashier's check, money order, official check or bank check – obtain a withdrawal document or canceled check for the amount of the gift to evidence the funds came from the donor's personal account or 3) if the transfer of funds was via a wire transfer, obtain a wire transfer confirmation to verify the settlement agent received the funds from the donor for the amount of gift. "Cash on hand" is not an acceptable source of funds.

IRS transcripts will assist lenders to validate applicant and adult household income and assets for many common circumstances that may include but are not limited to:

- Accuracy of an applicant's income and tax documentation.
- Accuracy of an applicant's Social Security number.
- Combat mortgage fraud.
- Single loan applicants that previously filed a joint tax return.
- Applicant's that have changed jobs/current line of work.
- Recent promotions.
- Compensation structure changes (base to commission, salary versus hourly).
- Bonus or overtime compensation that is being received now, but has not in the past.
- Undisclosed net family assets earning interest.
- Undisclosed self-employment or part-time employment.
- Applicant or household members that do not earn enough income to require the filing of a federal tax return.

Section 1: Qualifying Income

9.3: Annual Income

E. Verification of Income

1. Full Documentation

Clarification: Use of GUS does not remove the responsibility from lenders to calculate asset income for annual income. Income derived from assets must be entered on the "Eligibility" GUS application page.

Clarification: Lenders are not required to enter assets on the "Asset and Liabilities" GUS application page. Assets entered on this page must have supporting documentation in the lender's permanent loan file.

Section 1: Qualifying Income

9.3: Annual Income

E. Verification of Income

1. Full Documentation

NEW: Guidance is provided for gift funds provided via wire transfer.

Section 1: Qualifying Income

9.3: Annual Income

E. Verification of Income

6. Validation of Household Income

NEW: Additional reasons the IRS transcripts are helpful to validate household member income are included.

Documentation. Lenders must have the information returned from the IRS prior to submission of a request for a conditional commitment for loan note guarantee. This could include a “no record” result when a member of the household did not file a tax return for the year(s) requested.

Rejected files from the IRS are often a result of incomplete, illegible forms, or miss matched information when ordering the tax transcript. Lenders are reminded the form must be fully completed and accurate to avoid rejection.

When the lender is unsuccessful in obtaining the transcripts themselves, the Agency permits the following alternative method to validating household income in limited situations. This method is typically utilized when the automated return message from IRS is due to “limitations”. This type of message usually indicates the tax payer’s tax return transcript has been flagged by IRS due to possible identity theft.

1. Lender must retain evidence IRS could not fulfill their online request in the permanent loan file.
2. The applicant may order their own transcripts and deliver them to the lender.
3. All schedules must be requested by the applicant for the previous two tax years. If the applicant has not filed the previous tax year, request the two years previous to the most recent tax filing year and support the most recent tax filing year with verification of previous year earnings, together with current income verifications as noted in 7 CFR 3555, § 3555.152 and HB-1-3555 Chapter 9 at Paragraph 9.3.C.

A. Salaries, Wages and Other Forms of Repayment Income

The income of each party to the note must be analyzed to determine whether it can reasonably be expected to continue. ~~The lender must not inquire about the possibility of future maternity leave.~~ If the applicant intends to retire within the next 12 months, the repayment income will be the amount of retirement benefits, social security payments, and other retirement income.

Retirement and Social Security income requires verification from the source (former employer or Social Security Administration), such as a copy of the current award letter or Federal tax returns. If any benefits expire within the first three years of the proposed loan, the income source may only be considered as a compensating factor in lieu of repayment income. The Social Security Administration benefit verification letter or equivalent document would specifically state that benefits will expire; otherwise lenders should treat Social Security benefits as likely to continue.

Section 1: Qualifying Income

9.3: Annual Income

E. Verification of Income

6. Validation of Household Income

NEW: Guidance provided in the SFH Origination ListServ published June 18, 2015, has been added to clarify IRS results of “no record,” “rejected,” and those unavailable due to limitations.

Section 2: Repayment Income

9.10: Stable and Dependable Income

A. Salaries, Wages, and Other Forms of Repayment Income

Deleted: An erroneous reference to maternity leave has been removed.

Section 2: Repayment Income

9.10: Stable and Dependable Income

A. Salaries, Wages, and Other Forms of Repayment Income

6. Retirement and Social Security Income

NEW: Guidance for continuance of Social Security benefits is included. Reminder: History of receipt of these benefits must also be documented for repayment income consideration.

- **Long-term current leases.** Net rental income, received for 24 months or more, may be considered stable and dependable income for repayment purposes. Evidence of long term leases will be documented with the most recent two years of tax returns (including Schedule E of IRS Form 1040) and a copy of the written lease agreement executed by the homeowner and lessee. Net rental income is considered the two-year average of total rental real estate income reported on IRS Form 1040 Scheduled E. A two-year average of depreciation and depletion may be added back to the net income or loss shown on Schedule E less any monetary obligations associated with the property not captured on Schedule E (i.e. monthly principal and interest payment, insurance premiums, property taxes, homeowner's association dues, etc.). Positive net rental income is considered as gross income for repayment purposes. Negative net rental income must be treated as a recurring liability and not as a deduction from repayment income. The lender must make certain the applicant still owns the property listed by comparing the Schedule E with the real estate owned section of the residential loan application.

Section 2: Repayment Income

9.10: Stable and Dependable Income

A. Salaries, Wages, and Other Forms of Repayment Income

12. Rental Income

Clarification: Real estate taxes and mortgage interest (reflected on the Schedule E) are not deducted after depreciation and/or depletion are added back to the income.

- Payments for the care of foster children or adults, who are not otherwise related to the applicant's household by blood, marriage, or operation of law.

Section 2: Repayment Income

9.12: Documenting Repayment Income

Deleted: Foster care payments are ineligible to be used for repayment income. Relation to the applicant will not render these payments eligible.

ATTACHMENT 9-C

ANNUAL INCOME SOURCES

~~I. SOURCES OF INCOME COUNTED FOR ANNUAL INCOME~~

Attachment 9-C: Annual Income

Review this document as revised. Guidance deleted from Attachment 9-C was added within Chapter 9 to the applicable sections, as indicated by this resource guide.

Chapter 10: Credit Analysis

loans and loans utilizing the Agency's automated underwriting system. Loans that receive an "Accept" underwriting recommendation from the Agency's automated underwriting system eliminates the need for the lender to document the credit qualification decision, provided the lender has validated the credit score in accordance with Section 10.5 of this Chapter, as loan approval requirements are incorporated into the automated system's evaluation. Loans that receive an underwriting recommendation other than "Accept" may require additional documentation of the lender's decision for loan approval. If any applicant is delinquent on a non-tax Federal debt additional documentation and further evaluation will be required.

10.1: Introduction

Clarification: GUS does not validate the credit score as required in 10.5. Lenders must validate the score.

10.3 CREDIT REPORT REQUIREMENTS

The credit report the lender uses to assist in the assessment of credit eligibility must come from a recognized credit repository and cannot be provided by a credit reporting agency that is affiliated with the lender in any way. Credit reports can be no greater than 120 days old at loan closing. Types of credit reports include:

- Automated Merged Credit Reports;
- Residential Mortgage Credit Report (RMCR).

10.3: Credit Report Requirements

Clarification: Credit reports may not be greater than 120 days old at loan closing.

Refer to new guidance in 5.3 M to verify if the expired credit report in GUS may remain eligible.

10.5 VALIDATING THE CREDIT SCORE TO ESTABLISHING THE APPLICANT'S CREDIT REPUTATION

Credit scores are an integral part of the risk assessment. Credit scores are used to underwrite a borrower's credit reputation. Too little information, or information that is significantly inaccurate makes the credit score unusable for underwriting. A usable score ensures that the credit score is adequately indicative of an applicant's credit reputation and to ensure a fair evaluation to applicants in using credit scores to evaluate their overall credit reputation. If an applicant does not have a usable credit score in connection with their loan request, then the use of nontraditional credit references is acceptable.

For applicants with usable credit scores, the loan can continue to be underwritten with the automated underwriting system, subject to Section 10.7A of this Chapter. The automated underwriting system does not dynamically validate the credit score used for the underwriting recommendation. It remains the underwriter's responsibility. Applicants without usable credit scores will be manually underwritten to arrive at a conclusion that the applicant's credit reputation is acceptable.

A validated score does not wholly indicate that the applicant's credit reputation is acceptable. Even if the score exceeds the credit score as indicated in Section 10.7 of this Chapter, the credit score must be validated and the lender must determine that the applicants have satisfactorily established the willingness and ability to manage and repay obligations as agreed.

Once the credit reputation is established, the lender will evaluate the overall layering of risk in credit, capacity and collateral.

10.5: Validating the Credit Score to Establish the Applicant's Credit Reputation

Clarification: Additional guidance is provided to remind lenders that a credit score alone does not indicate an applicant is an acceptable credit risk.

Clarification: GUS does not validate the credit score. Lenders must manually validate the score.

Clarification: Eligible tradeline examples are provided to validate the credit score.

Clarification: Lenders must validate the score for every loan file. There is no credit score "threshold" that would render a lender exempt from verifying 10.5 is met.

Clarification: When the requirements for 10.5 are met, the lender remains responsible to ensure the credit history is positive and shows a willingness to repay debts responsibly.

Validating the Credit Score. Two~~three~~ or more eligible tradelines are necessary to validate an applicant's credit report score. Eligible tradelines consist of credit accounts (revolving, installment etc.) with at least 12 months of repayment history reported on the credit report. At least one applicant whose income or assets are used for qualification must have a valid credit report score. at least three historical

Confirm the applicant has at least two~~three~~ eligible tradelines reported to the credit bureau. The tradeline may be open, closed and/or paid in full by the applicant. Eligible tradelines include:

- Loan (secured or unsecured);
- Revolving (generally a credit which is not repaid by a certain number of installments);
- Installment credit (generally repaid through a specified number of installments such as automobile, recreational vehicle, or student loans);
- Credit card (offered by banking institutions, commercial enterprises and individual retail stores. Consumers make purchases on credit and if payment is made within a stipulated period of time, no interest is charged);
- Collection (an account whereby an original creditor transfers an unpaid, delinquent balance to a collection agency to retrieve any monies owed);
- Charge-off (is the declaration by a creditor that an amount of debt is unlikely to be collected)
- 1) Authorized user accounts may not be considered in the credit score and credit reputation analysis unless the applicant provides documentation that they have made payments on the account for the previous 12 months prior to application

The following are not considered an eligible tradeline to validate the credit score:

- Public records such as bankruptcies, tax liens, and judgments that appear on the credit report are not considered an extension of credit and therefore not included in this credit analysis step.
- Disputed accounts are not considered in the credit score and are not considered an eligible tradeline to validate credit.

Insufficient information. (any account that is open and active with repayment underway or any account that has been open, but may now be closed) trade line payment references that have existed for at least 12 months to establish a credit reputation and validate the credit score. A credit score can be generated if a repository's file includes only one tradeline, however, the lender must not use any score based on fewer than two~~three~~ tradelines. If not on the credit report cannot establish the required number of eligible tradelines to validate the credit score, establish a minimum payment history through use of a non-traditional report as explained in Paragraph 10.6 of this Chapter. A combination of eligible tradelines reported on the credit report and eligible non-traditional tradelines may represent the minimal number of tradelines necessary to validate the credit score. Non-traditional credit may not be used to enhance poor payment records or low credit scores.

10.5: Validating the Credit Score to Establish the Applicant's Credit Reputation

NEW: A minimum of two eligible tradelines are required to validate the credit score.

Clarification: Eligible tradelines must have 12 months of repayment history. The tradeline may be open, closed, or paid in full. Do not base eligible tradelines on a recent 12 month history. Historical tradelines are eligible as well.

Clarification: Examples of eligible tradelines to meet 10.5 are provided.

NEW: Authorized user accounts may be an eligible tradeline to meet 10.5 if the applicant has made the payments for the previous 12 months.

10.5: Validating the Credit Score to Establish the Applicant's Credit Reputation

Clarification: Examples of ineligible tradelines to meet 10.5 are provided.

10.5: Validating the Credit Score to Establish the Applicant's Credit Reputation

Clarification: A reported credit score does not validate the score per 10.5.

NEW: If less than two eligible tradelines are documented on the credit report, additional nontraditional tradelines may be verified to meet the cumulative total of two (or three if rent is not applicable).

Validating GUS credit scores. Loans underwritten with the assistance of the Agency's automated underwriting system that receive an "Accept" recommendation are also subject to the credit score validation of this Paragraph. A trade line in a documented dispute with 12 months of history is considered an eligible trade line. The inability to validate credit scores used by GUS will require GUS applications receiving an "Accept" underwriting recommendation, that fail to meet the credit score validation test using a traditional credit report, enders to must be downgraded an "Accept" underwriting recommendation to a "Refer" by the lender. In these instances and establish minimum payment history through the use of a non-traditional credit history will be required. report.

10.6 OBTAINING NON-TRADITIONAL CREDIT HISTORY

Some applicants may not have an established credit history, but credit verified through alternative sources may indicate a willingness to pay recurring debts. Neither the lack of a credit history on a traditional credit report nor the applicant's decision to not use traditional credit can be used as a basis for rejection. For this type of applicant, the lender will utilize alternative credit verification to establish the applicant's willingness to repay the requested loan. The alternative credit tradeline may be open, closed and/or paid in full by the applicant. It must have at least 12 months of repayment history reported to be a valid alternative source to support validation of a credit. For these applicants, the score. The lender may develop a Non-Traditional Mortgage Credit Report (NTMCR). A NTMCR may be used as a substitute for an RMCR or MMCR/TRMCR. An NTMCR may not be used to offset derogatory references found in the applicant's RMCR or MMCR/TRMCR; it should not be utilized to enhance the credit history of a applicant with a poor payment record or to manufacture a credit report for a applicant without a verifiable credit history.

The preferred method is all nontraditional credit references be verified by a credit bureau and reported back to the lender as a nontraditional mortgage credit report in the same manner as traditional credit references and uploaded into GUS. Supplemental credit reports cannot be uploaded into GUS. See Section 5.2A of Chapter 5 of this Handbook for additional guidance.

If a NTMCR is impractical, or such a service is unavailable, a lender may choose to obtain independent verification of trade references. TwoThree trade references are required when at least one of the trade references includes verification of rental housing payments or mortgage loan payments. If unavailable, at least threefour trade references must be used to determine if an applicant has a sufficient credit history. Traditional tradelines, with a 12 month payment history listed on the credit report, can be combined with eligible nontraditional tradelines to obtain the required number of tradelines noted in this paragraph.

10.5: Validating the Credit Score to Establish the Applicant's Credit Reputation

Clarification: A section has been added to address GUS loans. A manual downgrade is required if at least one applicant cannot meet the requirements of 10.5.

10.6: Obtaining Non-Traditional Credit History

Clarification: No credit history is unacceptable. At least one applicant must provide evidence of the required number of traditional and/or nontraditional tradelines.

Clarification: Nontraditional credit verified on a traditional credit report may be uploaded into GUS.

Clarification: Supplemental credit reports obtained outside of GUS to support debt obligations that are not reported on the credit report in GUS are ineligible.

10.6: Obtaining Non-Traditional Credit History

NEW: The required number of nontraditional tradelines has been reduced when applicable.

Clarification: Eligible traditional tradelines may be supplemented with nontraditional tradelines for eligibility when applicable.

Acceptable **nontraditional** trade-line sources include ~~an open and~~ recent 12-month payment record of the following:

- Rent payments;
- Utility payment records (if utilities were not included in any rent payments) such as gas, electricity, water, land-line home telephone service or cable TV;
- Insurance payments (excluding those **premiums** paid through payroll deductions, for example - employee group health plans) such as medical (other than those provided as an employee benefit through salary), automobile, life and household, or renter's insurance. Insurance premiums paid other than monthly, such as quarterly or annually, will require documentation that meet a full 12 months history of payment;
- Payments to child care providers – made to a business providing such a service;
- School tuition;
- Payments to local stores (department, furniture, appliance and specialty stores);
- Payments for the uninsured portions of any medical bills;
- Internet/cell phone services;
 - Automobile leases;
 - A personal loan from an individual (other than a family member) with repayment terms in writing and supported by cancelled checks or money order receipts to document repayment;
 - A documented 12-month history of saving by regular deposits (at least quarterly/non-payroll deducted/no NSF checks reflected), resulting in a reserve account equal to three months of proposed mortgage payments (PITI) as a cash reserve post-closing; or
 - Any other reference which gives insight into the applicant's willingness to make periodic payments on a regular basis for credit obligations.

Payments made to relatives for credit sources are ineligible as a non-traditional trade reference.

For this section a recent account is defined as an account which was closed no more than six months from the guaranteed loan application with the lender.

Accompanying reason codes with reported credit scores indicate why a credit score is not higher and can assist the lender in identifying credit factors that need to be addressed in determining the applicant has an acceptable credit reputation.

For manually underwritten loans or loans underwritten with the assistance of the Agency's automated underwriting tool, GUS, the lender must satisfactorily establish the applicant's willingness and ability to repay and manage obligations in accordance with 7 CFR 3555 and this Handbook. A credit score in its self does not indicate that the applicant's credit reputation is acceptable. Even when the credit score exceeds the minimum requirement, the lender must determine that each applicant, individually, and all applicants collectively, have an acceptable credit reputation.

10.6: Obtaining Non-Traditional Credit History

Deleted: Nontraditional tradelines do not have to be open at the time of loan application.

Clarification: Insurance and premium payments made through payroll deductions are not eligible nontraditional tradelines.

NEW: Insurance premiums, paid by the applicant on a quarterly, bi-annual, or annual schedule are eligible nontraditional tradelines.

NEW: A nontraditional tradeline is "recent" when closed no more than 6 months prior to loan application.

10.7: Credit Scores

NEW: Reason codes provided by credit bureaus may assist lenders to identify credit issues.

Clarification: Manual and GUS loans must have the credit history reviewed by the underwriter. The credit report will document if the applicant exhibits a positive history of handling their debt obligations.

Deleted: Credit reputation language in conflict with 10.5 was removed.

A. Acceptable Credit Scores for Manually Underwritten Loans

Underwriting manually with validated credit scores. The lender must perform a detailed review of all aspects of the applicant's credit history. Credit scores will be utilized to underwrite manually underwritten loans. Applicants with validated credit scores (See Section 10.5 of this Chapter) of 640 or greater meet the minimum credit reputation provided the following indicators of unacceptable credit, as addressed below, are not present in the applicant's credit file. The presence of collections, charge-offs, judgments, disputed accounts, authorized user tradelines and payment shock in the credit analysis, as described in this Chapter, may require further evaluation and documentation by the lender.

Refer to Attachment 10-B and Section 10.8 for guidance when considering granting an exception for extenuating circumstances to the credit standards set forth in this Chapter.

Determining the credit score for manual underwriting.

- If the applicant's credit report has three scores, the middle score should be used as the representative score.
- If the applicant has two scores, the lower of the two should be used as the representative score.
- If the applicant has a repeating score, that score will be utilized.
- If the applicant has one score, a NTMCR must be developed for manually underwritten loans. Each applicant must be evaluated separately.

Indicators of unacceptable credit. The following indicators require documentation meeting the criteria of Section 10.8 to approve an applicant's loan request for manually underwritten loans.:

- Foreclosure within 3 years:
 - Including pre-foreclosure activity, such as a pre-foreclosure sale or short sale in the previous 3 years (refer to Attachment 10-B for additional guidance);
- Bankruptcy within 3 years:
 - Chapter 7 bankruptcy discharged in the previous 3 years;
 - An elapsed period of less than 3 years, but not less than 12 months, may be acceptable if the applicant meets the criteria of Section 10.8 of this Chapter.
 - Chapter 13 bankruptcy that has yet to complete repayment (repayment plan in progress) or has completed payment in the most recent 12 months.
 - Plans that are completed for 12 months or greater do not require a credit exception in accordance with Section 10.8;
- Late mortgage payments if any mortgage trade line during the most recent 12 months shows 1 or more late payments of greater than 30 days.
- Late rent payments paid 30 or more days late within the last 12 months.

10.7: Credit Scores

A. Acceptable Credit Scores for Manually Underwritten Loans

NEW: Guidance is provided for manually underwritten loans. GUS loan guidance is in 10.7 B.

Clarification: Credit scores used for underwriting must be validated per 10.5. There is no credit score "threshold" or minimum credit score that removes the requirement from the lender to validate the credit score.

Clarification: Adverse credit requires consideration and explanation. Refer to Attachment 10-B and Section 10.8 for guidance if adverse credit is present.

Clarification: Guidance to select the applicable underwriting score is provided.

10.7: Credit Scores

A. Acceptable Credit Scores for Manually Underwritten Loans

Clarification: The guidance in this section is for manually underwritten loans. Refer to 10.7 B for GUS loans.

Clarification: If an underwriter determines a credit waiver is appropriate for the loan file, documentation must be retained to meet 10.8.

Clarification: Foreclosures within 36 months (including short sales), refer to Attachment 10-B (as revised).

Clarification: Chapter 7 bankruptcies discharged for 12 months or more may be eligible if 10.8 is met.

Clarification: Chapter 13 bankruptcies completed for 12 months or more do not require credit exceptions under 10.8.

Lender actions when indicators of unacceptable credit are present on manually underwritten loans. Even when the credit score exceeds 640, the lender must determine that each applicant individually, and all applicants collectively, have an acceptable credit reputation. When indicators of unacceptable credit are present and the lender proposes to approve a credit exception, the lender will refer to Section 10.8 of this Chapter to determine if an exception to credit can be granted. A lender is required to obtain documentation to support an approval of the loan request, based upon the criteria of Section 10.8. Documentation will be retained in a lenders permanent loan file.

Low credit score loan requests. A credit exception with supportive documentation confirming the circumstances leading to derogatory credit that attributed to the low credit score is required for all loans receiving a credit score of 639 or below. Circumstances must meet criteria, as outlined in Section 10.8 of this Chapter to be eligible for a credit exception. Loans with credit scores of 580 or below should not be approved.

Lender actions when inaccurate information is reported. Credit trade-lines that list the applicant as an "authorized user" cannot be considered in the underwriting decision unless another applicant in the mortgage transaction is the owner of the trade-line, or the owners of the trade-line is the spouse of an applicant, or the applicant can provide documented evidence that they have made the payments on the authorized user account for 12 months preceding application. Refer to Section 10.12 of this Chapter for further guidance.

Lender actions when collections are reported. Lenders will follow guidance in Section 10.9 when collections are reported on the credit report.

Lender actions when judgments are reported. Lenders will follow guidance in Section 10.10 when judgments are reported on the credit report. Applicants who have outstanding Federal judgments (other than IRS) that are open and unsatisfied are ineligible for the SFHGLP. Applicants who have an IRS tax debt are ineligible if a repayment plan is not underway. If a repayment plan is underway, the lender will determine if the repayment plan meets the criteria of a credit exception in accordance with Section 10.8 of this Chapter.

10.7: Credit Scores

A. Acceptable Credit Scores for Manually Underwritten Loans

Clarification: Credit waivers must meet 10.8, and the documentation must be retained in the lenders permanent file.

10.7: Credit Scores

A. Acceptable Credit Scores for Manually Underwritten Loans

NEW: Low scores (639 and below) require evidence of 10.8. Credit scores of 580 and below should not be approved.

10.7: Credit Scores

A. Acceptable Credit Scores for Manually Underwritten Loans

Clarification: Reminder of requirements for an authorized user account to be eligible for consideration.

10.7: Credit Scores

A. Acceptable Credit Scores for Manually Underwritten Loans

Clarification: Collections must meet 10.9.

10.7: Credit Scores

A. Acceptable Credit Scores for Manually Underwritten Loans

Clarification: Judgments must meet 10.10.

Clarification: Outstanding Federal judgments (other than IRS) render an applicant ineligible.

Clarification: IRS debts in repayment must continue to meet 10.8. The absence of a repayment plan to the IRS renders an applicant ineligible.

Lender actions when disputed accounts are reported. Lenders will follow guidance in Section 10.11 when an applicant has disputed tradeline references.

Obtaining rental history for manually underwritten loans. Lenders will follow Section 10.13 for guidance in obtaining rental history for manually underwritten loans. Loan requests with validated credit scores of 680 or greater are not subject to rental verification for manually underwritten loans.

Underwriting with no credit score. The use of non-traditional credit references as described in Section 10.6 of this handbook is acceptable if the applicant does not have a credit score, OR the credit score cannot be validated in accordance with Section 10.5 of this Chapter. If the required number of traditional or nontraditional tradelines cannot be documented, the loan is ineligible.

When the loan is manually underwritten, the primary wage earner should be treated as the applicant and all other applicants are considered co-applicants. Credit trade-lines that list the applicant as an “authorized user” cannot be considered in the underwriting decision unless another applicant in the mortgage transaction is the owner of the trade-line, or the owners of the trade-line is the spouse of an applicant, or the applicant can provide documented evidence that they have made the payments on the authorized user account for 12 months preceding application.

If the applicant’s credit report has three scores, the middle score should be used as the representative score. If the applicant has two scores, the lower of the two should be used as the representative score. If the applicant has a repeating score, that score will be utilized. If the applicant has one score, a NTMCR must be developed for manually underwritten loans. The Agency’s automated underwriting system will determine the applicable score when developing an underwriting recommendation and may utilize a single score. Each applicant must be evaluated separately.

All instances of adverse credit must be addressed by the lender’s underwriter and documentation surrounding this review must be retained in the lender’s permanent loan file.

10.7: Credit Scores

A. Acceptable Credit Scores for Manually Underwritten Loans

Clarification: Disputed accounts must meet 10.11.

10.7: Credit Scores

A. Acceptable Credit Scores for Manually Underwritten Loans

Clarification: Refer to 10.13 for rental verification. Validated credit scores of 680 or greater do not require verifications for rent.

10.7: Credit Scores

A. Acceptable Credit Scores for Manually Underwritten Loans

Clarification: If an applicant does not have an eligible credit score, or a validated credit score, the lender must document a nontraditional credit per 10.6.

Clarification: The loan is ineligible if an acceptable credit history and/or an eligible validated credit score are not documented.

10.7: Credit Scores

A. Acceptable Credit Scores for Manually Underwritten Loans

Deleted: The primary wage earner does not have to be the primary applicant.

Relocated: Authorized user information, credit score selection, and adverse credit information has been moved to alternate locations in the HB.

The lenders evaluation and conclusion that the credit reputation is acceptable. The lender's underwriting decision to approve a mortgage must be based on an overall evaluation of the risks documented in the mortgage file. Underwriters must consider the entire credit profile of each applicant and not approve a loan based upon a single component. The lender may consider the strength of some components against the weakness of one component to arrive at a conclusion. The lender must document the evaluation in the lender's permanent mortgage file. Whenever there is evidence of layered risk, more conservative underwriting standards must be utilized.

For manually underwritten loans, a credit waiver with supportive documentation validating the circumstances leading to the adverse credit is required for all loans receiving a credit score of 581 or above. Loans with credit scores of 580 or below should not be approved.

If a lender omits an adverse trade line when utilizing GUS and receives an "Accept" the applicant explanation letters and supportive documentation of adverse trade lines will be retained by the lender. The "Notes" section of the "Asset and Liabilities" page will reflect the lenders basis for omitting the trade line.

The lender remains responsible for evaluating and confirming the representation of accurate data in GUS. Improper omission of trade lines could misrepresent the strength of the recommended underwriting decision and could adversely affect the future payment of the guarantee should a loss occur.

B. Acceptable Credit Scores for Automated Underwriting with Credit Scores

The Agency's automated underwriting system will determine the applicable score when developing an underwriting recommendation and may utilize a single score. The credit score utilized by GUS represents the overall credit reputation risk for the loan transaction. Indicators of unacceptable credit, as described in Section 10.8A above are already considered in the risk evaluation considered by the automated underwriting system when rendering an underwriting recommendation. The underwriting score is located in the "Credit Report" section of the GUS Underwriting Findings Report.

Validating the credit score utilized by GUS. GUS credit scores are subject to validation to ensure a usable credit score is utilized for underwriting. This will ensure both the score is adequately indicative of an applicant's credit reputation and fairness to the applicant in using credit scores to evaluate their overall credit reputation. Lenders will follow Section 10.5 of this Chapter to ensure the credit scores are usable in the underwriting analysis. GUS does not dynamically complete this step.

Downgrading an "Accept" Underwriting Recommendation. The lender may downgrade the underwriting recommendation even when minimal requirements are met and an "Accept" underwriting recommendation is received, based upon their business rules and regulations, which may represent a more conservative approach.

10.7: Credit Scores

A. Acceptable Credit Scores for Manually Underwritten Loans

NEW: Reminder: Lenders must base the loan approval decision from their review of all loan documentation, credit, etc. A strong credit score cannot compensate for other risk layers associated with the loan.

10.7: Credit Scores

A. Acceptable Credit Scores for Manually Underwritten Loans

Relocated: The deleted portions have been moved to other sections of 10.7 A for manually underwritten loans and 10.7 B for GUS loans.

10.7: Credit Scores

B. Acceptable Credit Scores for Automated Underwriting

NEW: This section addresses credit scores and adverse credit when the loan is underwritten with the assistance of GUS.

Clarification: GUS considers the adverse credit in 10.8 as part of the underwriting recommendation.

Clarification: Applications processed in GUS require credit score validation by the lender. GUS does not validate the credit score.

Clarification: Lenders may need to downgrade a GUS Accept underwriting recommendation. Specific examples are included to help assist when the downgrade is required.

The following represent examples when a lender will downgrade an “Accept” underwriting recommendation to a Refer and manually underwrite. A request for conditional commitment occurs in GUS when a lender performs a final submittal on the credit and underwriting page.

- Unable to validate the credit score. The underwriting score located in the Credit Report section of the GUS Underwriting Findings Report cannot be validated. Non-traditional credit must be utilized to support the credit reputation of the applicants. Refer to Section 10.5 to validate credit scores.
- Manually input liabilities. Accounts that have been manually input into the liabilities section of GUS and do not appear on the credit report have not had the opportunity to be considered in the credit evaluation by GUS. This will require an “Accept” underwriting recommendation to be downgraded to a “Refer.” Exceptions to the downgrade include manual entry of child support, alimony or garnishments from the applicant’s salary. Credit supplements obtained outside of GUS may not be used to verify debts to retain an “Accept” recommendation.
- Disputed accounts. Disputed accounts as further outlined in Section 10.11 of this Chapter may require a manual down grade of an “Accept” underwriting recommendation.
- Authorized user accounts. Tradelines that are authorized user accounts that do not meet the criteria as outlined in Section 10.12 of the Chapter may require a down grade of the an “Accept” underwriting recommendation.
- Potential derogatory or contradictory information. If the lender is aware of any potential derogatory or contradictory information that is not any part of the data submitted to GUS or if there is any erroneous information in the data submitted to GUS. GUS will evaluate credit for significant credit indicators such as bankruptcy discharges, foreclosure sales, Deed-in-Lieu (DIL) of foreclosure and late mortgage payments. A lender must independently review information regarding the following:
 - Pre-foreclosure sale. A pre-foreclosure sale (short sale) transfer occurred within three years of the request for conditional commitment. Refer to Attachment 10-B for further guidance.

10.7: Credit Scores

B. Acceptable Credit Scores for Automated Underwriting

NEW: Guidance is provided to determine when a GUS Accept must be downgraded to a Refer.

NEW: Guidance is provided for pre-foreclosure sales (short sales) that occurred within the previous three years.

~~When manually underwriting with credit scores, the lender must not use offsets for weaknesses in the applicant's credit reputation as they have already been considered in creating the credit score. Such offset factors include:~~

- ~~• The age of derogatory information;~~
- ~~• The number or types of accounts paid as agreed versus delinquent accounts;~~
- ~~• Recent pay-down or pay-off of account balances by the applicant; and~~
- ~~• Any combination of the above factors.~~

~~The lender's underwriting decision to approve a mortgage must be based on an overall evaluation of the risks documented in the mortgage file. Underwriters must consider the entire credit profile of each applicant and not approve a loan based upon a single component. The lender may consider the strength of some components against the weakness of one component to arrive at a conclusion. The lender must document the evaluation in the lender's permanent mortgage file. Whenever there is evidence of layered risk, more conservative underwriting standards must be utilized.~~

~~A score factor accompanies each applicant's credit score. The codes are useful in understanding which factors are most responsible for arriving at the applicant's credit score. In cases where a applicant is determined to be too great a risk for approval at the present time, the lender can use the score factor to assist the applicant with the appropriate path to follow to achieve homeownership in the future.~~

10.8 CREDIT EXCEPTIONS

Credit history problems do not always reflect an unwillingness to meet financial obligations. If the lender believes that the applicant is creditworthy, the lender should document on the underwriter's analysis the reasons that an exception is justified. Exceptions should be made only in the following types of situations. Attachment 10-B of this Chapter can assist lenders with their credit decision.

10.9 COLLECTION ACCOUNTS

Collection accounts are factored into the credit score. Collection accounts will be considered in the analysis of credit and capacity.

~~For manually underwritten loans, the lender's underwriter should document any mitigating circumstances to the adverse credit when evaluating the credit history of the applicant(s). For loans underwritten with the assistance of GUS, lenders remain responsible for considering the existence of unpaid collections and the history of the collection accounts in the credit analysis and loan-making decision.~~

Manually underwritten loans with collections reported. For a manually underwritten loan, the lender must document mitigating circumstances in accordance with Section 10.8 of the Chapter, subject to the capacity analysis described below, reasons for approving a loan request when collection accounts are present and remain unpaid. The preferred method to document a lender's decision to leave collections unpaid is the underwriting analysis. For each outstanding collection account, the applicant must provide a letter of explanation together with documentation supporting the applicant's justification. The supporting documentation and explanation must be consistent with other credit information in the file.

10.7: Credit Scores B. Acceptable Credit Scores for Automated Underwriting

Deleted: The language that refers to manually underwritten loans has been relocated to 10.7 A.

10.8: Credit Exceptions

Clarification: Refer to Attachment 10-B for guidance on credit exceptions.

10.9: Collection Accounts

Deleted: This language was removed and relocated under guidance for manually underwritten loans.

10.9: Collection Accounts

Clarification: Manually underwritten loans with collections are addressed. If the loan is approved with this adverse credit, 10.8 must be met.

Collections reported for the automated underwriting system – GUS “Accept”. For loans underwritten with the assistance of GUS when an “Accept” recommendation is received, lenders remain responsible for considering the existence of unpaid collections and the history of the collection accounts in the final credit analysis and loan making decision, subject to the capacity analysis described For loans underwritten with GUS, below. A letter of explanation or documentation supporting the presence of unpaid collections is not required when the underwriting recommendation is an “Accept.” The lender will document reasons for approving a loan request when collection accounts remain unpaid. The preferred method to record the lenders analysis/reasons for approving the loan is to document their justification on the credit liability line under “notes” on the “Assets and Liabilities” page beside each individual collection.

Capacity analysis when collections are reported – all underwriting types. Unpaid open collections could affect the future ability of an applicant to repay a mortgage when creditors pursue collection. Ensure all collections and charge-offs are listed on the loan application as a liability. Collections meeting the omission policy noted below can be omitted from the total debt to income ratio. Additional documentation is not required to omit those collections meeting criteria below.

- 2) Remove all medical collections and all types of charge off accounts from the total balance. Medical collections and charge off accounts must be clearly identifiable on the credit report.

10.10 NON-FEDERAL JUDGMENTS

The presence of court-~~ordered~~ ordered non-Federal judgments must be considered in the credit analysis. Unpaid judgments may represent an applicant’s disregard for credit obligations. Lenders must document reasons for approving a mortgage when the applicant has judgments. Usually judgments are paid in full prior to loan eligibility.

The following is applicable to all underwriting types.

- 1) Open and unpaid non-federal judgment. Non-federal judgments that are open and unpaid are ineligible for SFHGLP.
- 2) Exception to open and unpaid judgment – repayment plan underway. An exception to payment in full of outstanding judgments can be made when the applicant(s) have a payment arrangement with the creditor and have made regular and timely payments for the three months prior to loan application. Prepaying scheduled payments as a means of meeting minimum requirements is unacceptable. Lenders will obtain a copy of the payment agreement and validate payments have been made in accordance with the payment agreement. The payment agreement will be included in the debt-to-income ratio.

Unless precluded by state law, judgments of a non-purchasing spouse in a community property state will be paid in full or meet the exception guidance provided in this Paragraph.

Note: With the exception of an IRS tax debt with a repayment plan underway, an outstanding Federal judgment that is open and remains unsatisfied is ineligible for the SFHGLP.

10.9: Collection Accounts

Clarification: GUS Accept loans must ensure the lender has considered the adverse credit as part of their loan approval. A GUS Accept is not a substitute for prudent underwriting.

10.9: Collection Accounts

Clarification: Every open liability on the credit report must be on the 1003 loan application and/or “Asset and Liabilities” GUS application page. Lenders may omit debts as applicable.

10.9: Collection Accounts

Clarification: All charge off accounts are eligible to be deducted from the total adverse credit balance for the capacity analysis.

10.10: Non-Federal Judgments

Clarification: This section was clarified for non-Federal judgments. Federal judgments are in Attachment 10-B.

Clarification: For all underwriting types, open and unpaid non-Federal judgments render the loan ineligible. Exception: Judgments with repayment plans underway.

Clarification: Outstanding Federal judgments (excluding IRS tax debts with repayment plans underway) render the loan ineligible.

10.11 DISPUTED ACCOUNTS

Disputed accounts on an applicant's credit report are not considered in the credit score.

Manually underwritten loans. For manually underwritten loans, all disputed accounts with outstanding balances/payments must have a letter of explanation and documentation supporting the basis of the dispute. Those debts that have been excluded from the debt ratios must have evidence in the permanent loan file to support a justifiable dispute. Evidence may include correspondence from the applicant/their attorney to the creditor. The lender is responsible for analyzing the documentation presented and confirming that the explanation and supporting documentation are consistent with the credit record during the underwriting analysis.

Automated Underwriting System – GUS “Accept”. Loans underwritten with the assistance of GUS that receive an underwriting recommendation of “Accept” will be downgraded to a manual “Refer” and manually underwritten unless the following conditions are met on the credit report:

- 1) The disputed trade line has a zero dollar balance.
- 2) The disputed trade line is marked “paid in full” or “resolved.”
- 3) The disputed trade line has a balance owed of less than \$500 and is more than 24 months old.

Loans downgraded for failure to meet any of these conditions are subject to a manual review and require the submission of the complete underwriting case file.

10.12 AUTHORIZED USER TRADE LINES

The lender must review credit report trade lines in which the applicant has been designated as an authorized user in order to ensure that any open trade lines are an accurate reflection of the applicant's credit history. Closed authorized trade lines require no consideration. An authorized user account that is classified as “terminated” on the credit report is equal to a closed trade line.

Manually underwritten loans. Lenders must ensure open authorized user tradelines reported on the credit report are an accurate reflection of the applicant's independent approach to credit repayment and credit history.

Automated Underwriting System – GUS “Accept”. For loans underwritten with the assistance of GUS that receive an underwriting recommendation of “Accept” and are supported by credit reports that designate the applicant on an open an-authorized user of trade lines, the lender will obtain evidence of one the following:

- ~~1)~~2) The trade line(s) in question is owned by another applicant on the mortgage loan application.
- ~~2)~~3) The owner of the trade line is the spouse of an applicant.
- ~~3)~~4) The applicant has made payments on the account for the previous 12 months prior to application.

In the event one of the conditions cannot be met, an underwriting recommendation of “Accept” must be downgraded to a “Refer” and the file must be manually underwritten.

10.11: Disputed Accounts

Clarification: Guidance is provided individually for manually underwritten and GUS loans.

10.12: Authorized User Tradelines

NEW: A “terminated” authorized user account on the report is considered closed.

Clarification: Guidance is provided individually for manually underwritten and GUS Accept loan files.

10.13 RENT HISTORY

Manually underwritten loans. Some first time homebuyers do not have a verifiable housing or rent payment history. In such cases, a rent history is not required. If the applicant's and co-applicant's credit score is under 680 and the applicant(s)/co-

Automated Underwriting System – GUS “Accept”. Loans underwritten with GUS that receive an “Accept” underwriting recommendation are not subject to verification of rent or housing history. Lenders who enter the rent payment under current housing expense on the Combined Monthly Housing Expense section of the Income and Expenses page of GUS are not subject to rental verification if an “Accept” underwriting recommendation is received. If a loan is manually down-graded to a Refer and requires a manual underwrite; the applicant pays rent; and the credit score is below 680, rental verification will be required.

Manually underwritten loans. Payment shock by itself (without the presence of other risks) is not an additional risk layer. Payment shock is a risk layer for underwriters to consider when the PITI ratio exceeds 29% and the proposed mortgage payment is 100% or greater than current housing expense. Payment shock is not a risk layer and requires no further supportive documentation if the PITI ratio is 29% or less.

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

- The applicant(s) has an ability to accumulate savings or cash reserves;
- The applicant(s) has a demonstrated conservative attitude toward using credit;
- The applicant(s) has potential for increased earnings, as indicated by job training or education in the applicants profession;
- The applicant(s) has a representative credit score of 680 or higher.

• Automated Underwriting System – GUS “Accept”. Payment shock is part of the underwriting risk evaluation and is not subject to further evaluation or documentation unless disclosed in the GUS Underwriting and Findings Analysis.

The Agency's automated underwriting system will retrieve credit reports for applicants only. Therefore, lenders must obtain an acceptable credit report outside of the system. Liabilities for a non-purchasing spouse should be entered on the “Asset and Liabilities” page in the liability section. When recording the debt, lenders should reference the liability as a non-purchasing spouse debt in the “Notes” data field of the credit liability line. Lenders will retain a copy of the non-purchasing spouse credit report in their permanent mortgage file. Submit a copy to Rural Development when requesting a commitment for Loan Note Guarantee. Loans that received an “Accept” in the Agency's automated underwriting system, GUS, do not require a downgrade to “Refer” when manually inputting and capturing the debts of a NPS.

10.13: Rent History

Clarification: Guidance is provided individually for manually underwritten loans and GUS Accept loan files.

10.13: Rent History

Clarification: Rent entered on the “Income and Expenses” GUS application page with an Accept underwriting recommendation will not require verification unless the file is downgraded to a Refer and the validated credit score is below 680.

10.14: Payment Shock

Clarification: Guidance is provided individually for manually underwritten and GUS Accept loans.

10.14: Payment Shock

Clarification: GUS evaluates payment shock as part of the underwriting recommendation.

10.15: Non-Purchasing Spouse Credit History

Clarification: Non-purchasing spouse debts are required to be included per community property state lending laws. When these debts are manually entered by the lender, a GUS Accept recommendation is not required to be downgraded.

- Automated Underwriting System – GUS “Accept” Automated underwriting files that receive an “Accept” underwriting recommendation. Loans underwritten with GUS that receive an “Accept” underwriting recommendation are not subject to additional rental or mortgage payment history documentation.
- Lenders who enter rent on the “Income and Expenses” GUS application page are not subject to a VOR/rent verification when the file receives an “Accept” underwriting recommendation.
- Files that have been underwritten with GUS, and receive an “Accept” underwriting recommendation require no further documentation with the presence of late mortgage payments as they have already been considered by the scorecard.
- Manually underwritten loans. Files that are manually underwritten will be analyzed in accordance with the guidance provided at Section 10.13 of this Chapter. The consideration of a credit exception in accordance with Section 10.8 will be supported with documentation validating the exception meets the criteria as outlined in that Section.

Recent and/or Undisclosed Debts and Inquiries

- Lenders must determine the purpose of any recent debts as the indebtedness may have been incurred to obtain funds to close the loan. Any new debt and payment must be included in the final underwriting analysis.
- An applicant must provide a satisfactory explanation for any significant debt noted on the credit report, but not included on the loan application.
 - Manually underwritten loans. Add recent and undisclosed debts to the loan application. Consider these debts in the credit underwriting analysis.
 - Automated Underwriting System – GUS “Accept”. Confirm and include any monthly payment amount for debts not considered in the automated underwriting system recommendation. Resubmit the loan for an updated underwriting recommendation.
 - If the debt was not reported on the credit report uploaded into GUS and are manually added to the “Asset and Liabilities” application page of GUS, the lender will downgrade the “Accept” to a “Refer” and manually underwrite the file. Exception: the manual entry of child support, alimony, garnishments and other debts that are not typically reflected on a credit report will not require a downgrade.
 - A lender may have the debt added to the credit report and re-associate the new credit report that includes the previously recent or undisclosed debt in a subsequent underwriting recommendation request.
 - Credit supplements obtained outside of GUS may not be used to verify debts to retain an “Accept” recommendation.

Attachment 10-B: The Credit Review Previous Rental or Mortgage Payment History

Clarification: Language from 10.13 is included.

Attachment 10-B Recent and/or Undisclosed Debts and Inquiries

Clarification: Guidance is provided individually for manually underwritten and GUS Accept loans.

Clarification: Downgrade GUS Accept loans if debts not reflected on the credit report are manually added to the “Asset and Liabilities” application page. If the debt is reflected to the credit report uploaded into GUS, the downgrade will not be required.

Clarification: Credit supplements obtained outside of GUS to support new debts or corrections to current debts are not eligible to retain an Accept recommendation.

~~Collections and Judgments~~

- A collection account refers to an applicant's loan or debt that has been submitted to a collection agency by a creditor.
- Manually underwritten loans:
 - ~~Collections and judgments~~ indicate an applicant's regard for credit obligations, and must be considered in the creditworthiness analysis.
 - Ensure all open collections are listed on the loan application under liability.
- Collection accounts are not required to be paid off as a condition of a guarantee. Paragraph 10.9 of this Chapter outlines additional actions required when the outstanding balance of all collections collectively exceeds \$2,000.
- The lender must document reasons for approving a mortgage when the applicant has collection accounts ~~or judgments~~. The applicant must explain, in writing and/or provide supportive documentation, for all collections ~~and judgments~~ as outlined in Paragraph 10.9 ~~and 10.10~~ of this Chapter.

Automated Underwriting System – GUS “Accept”

- Ensure all open collections are listed on the loan application under liability on the “Assets and Liabilities” page of GUS.
- Omit any collections that are eligible in the capacity analysis as outlined in Paragraph 10.9 of this Chapter.

~~Paying off Collections on~~ Non-Federal Judgments

- ~~Collection accounts are not required to be paid off as a condition of a guarantee. Paragraph 10.9 of this Chapter outlines additional actions required when the outstanding balance of all collections collectively exceeds \$2,000. However, e~~Court-ordered judgments MUST be paid off before the mortgage loan is eligible for a guarantee unless the applicant provides documentation indicating that regular payments have been made on time in accordance to a documented agreement with a creditor. Paragraph 10.10 outlines additional actions and requirements of a documented payment agreement.
- If a loan is underwritten with the assistance of the Agency's automated underwriting system, then regardless of the underwriting recommendation, the findings report will require the lender to obtain evidence of payoff for any outstanding judgments shown on the credit report. Lenders are reminded the “Declaration” questions within the Agency automated underwriting system or when completed manually should accurately reflect a response representative of the applicant's credit status.

Attachment 10-B Collections

Deleted: Judgments are deleted from this section and addressed in a separate section of Attachment 10-B.

Clarification: Guidance is provided individually for manually underwritten and GUS Accept loans.

Clarification: Manually Underwritten Loan: 1. Ensure all open collections are included on the 1003, 2. Collections are not required to be paid off, 3. Refer to 10.9 when collections exceed \$2,000, and 4. Document rationale for omissions.

Clarification: GUS Accept files must include all open liabilities on the “Asset and Liabilities” application page.

Clarification: Collections may be omitted per 10.9.

Attachment 10-B Non-Federal Judgments

Deleted: Collection accounts have been moved to a separate section of Attachment 10-B.

Clarification: This section is dedicated to Non-Federal Judgments.

Delinquent Federal Non-Tax Debt

- Lenders must determine if the applicants have delinquent federal non-tax debt. Information may be obtained from public records, credit reports, or equivalent and must check all applicants' against the Credit Alert Verification Reporting System (CAIVRS). See Appendix 7 for instructions on checking CAIVRS.
- Delinquent Federal non-tax debts are ineligible for a SFHGLP unless the delinquency is resolved.
- Delinquent Federal non-tax debt also refers to applicant(s) who have had a previous SFHGLP debt which was settled, or is subject to settlement, or whether SFHGLP otherwise suffered a loss on a loan to one or more of the applicants. The applicant(s) are ineligible unless the applicant qualifies for an exception granted by SFHGLP.
 - If the SFHGLP suffered any loss related to a previous loan, a loan guarantee shall not be issued unless SFHGLP determines the loss was beyond the applicant's control and any identifiable reasons for the loss no longer exist.

Delinquent Federal Tax Debt

- Applicants with delinquent Federal tax debt are ineligible.
- Tax liens may remain unpaid if the applicant has entered into a valid repayment agreement with the federal agency owed to make regular payments on the debt and the applicant has made timely payments for at least three months of scheduled payments. The applicant cannot prepay scheduled payments in order to meet the required minimum of three months of payments.
- Payments will be included in the DTI ratio.
- Documentation will include IRS evidence of the repayment agreement and verification of payments made.

Previous Mortgage Foreclosure and Deed-in-Lieu of Foreclosure

- An applicant is generally not eligible for a new guarantee, if during the prior three years the applicant's previous real property was foreclosed on or they have given a deed-in-lieu of foreclosure.
- The lender may grant an exception in accordance with Paragraph 10.8 of this Chapter.
- The inability to sell the property due to a job transfer or relocation to another area does not qualify as an extenuating circumstance.
- Divorce is not considered an extenuating circumstance. However, an applicant whose loan was current at the time of a divorce in which the ex-spouse received the property and the loan was later foreclosed may qualify as an exception.

Attachment 10-B

Delinquent Federal Non-Tax Debt

NEW: Federal Non-tax debt has a separate section.

Clarification: Federal non-tax debts (non IRS) will render an applicant ineligible.

Clarification: Applicants that have already lost one home secured with a USDA direct or guaranteed loan are ineligible unless USDA determines the applicant is eligible. Documentation from the applicant will be required.

Attachment 10-B

Delinquent Federal Tax Debt

NEW: Delinquent Federal tax debt guidance is provided.

Clarification: Delinquent Federal tax debts will render the loan ineligible unless there is a valid repayment agreement with three months of timely payments made.

Attachment 10-B

Previous Mortgage Foreclosure and Deed-in-Lieu of Foreclosure

New: Deed-in-Lieu of Foreclosure is added to this section.

Chapter 7 Bankruptcy

Manually underwritten loans.

- A Chapter 7 bankruptcy (liquidation) does not disqualify an applicant from obtaining a mortgage loan if at least three years have elapsed since the date of the discharge of the bankruptcy. During this time, the applicant must have re-established good credit or chosen not to incur new credit obligations.
- An elapsed period of less than 3 years may be acceptable for a loan guarantee if the applicant can show the bankruptcy was caused by extenuating circumstances beyond their control and has since exhibited a documented ability to manage their financial affairs in a responsible manner for a reasonable period of time following discharge. Eligible mitigating circumstances must meet Section 10.8 of this Chapter. Supporting documentation must be submitted with the loan guarantee request. Generally a borrower whose bankruptcy has been discharged less than 1 year should be ineligible to enable the applicant to re-establish their credit.
- The lender must document the applicant's current situation indicates the events that led to the bankruptcy are not likely to recur.
- When a Chapter 7 bankruptcy absolved the mortgage debt for the applicant, any foreclosure or remaining foreclosure pending is an action against the property, not the applicant. The foreclosure action is not considered as adverse an indicator of unacceptable credit in the applicant's evaluation. A loan underwritten with the assistance of GUS will not be required to be manually down-graded when the bankruptcy discharge included the mortgage debt.
- If an applicant has a real estate mortgage discharged in a Chapter 7 bankruptcy, however a foreclosure action is not concluded, the applicant may remain in ownership of the property. In this example, title must be transferred to the lender of the pending foreclosure in order to remove the applicant from ownership and responsibility of real estate taxes and homeownership dues of the property. If title is not transferred, the applicant will be subject to Chapter 8, Section 8.2A of this Handbook for retention of a dwelling, and any individual responsibility (real estate taxes, homeownership dues, insurance, etc.) in long the term debt calculation.

Automated Underwriting System – GUS “Accept”. If the underwriting recommendation from GUS is an “Accept”, no further documentation regarding the bankruptcy is required.

Attachment 10-B Chapter 7 Bankruptcy

NEW: Guidance is provided individually for manually underwritten and GUS Accept loans.

Clarification: Applicants that are deemed credit eligible with severe adverse credit must have the approval documented in accordance with 10.8.

Clarification: Applicants discharged less than one year from a Chapter 7 BK should be ineligible.

NEW: The GUS Accept section clarifies that GUS has rendered an underwriting recommendation which has already considered the adverse credit. Manually underwritten guidance does not apply to GUS Accept loan files.

Chapter 13 Bankruptcy

- Chapter 13 bankruptcy plan in progress. A Chapter 13 bankruptcy plan in progress does not disqualify an applicant from obtaining a mortgage loan, provided the following criteria, applicable to all underwriting methods, can be met:
 - the lender documents 12 months of the debt restructuring plan has elapsed; and
 - the applicant's payment performance has been satisfactory; and
 - and all required payments were made on time; and
 - The applicant must receive written permission from the bankruptcy court/trustee to enter into a mortgage transaction.
 - Manually underwritten loans. In addition to the criteria set forth for a plan in progress, a credit waiver exception in accordance with Section 10.8 of this Chapter by the lender will be required, for a manually underwritten loan. Include the payment in the debt ratios of the applicant(s).
 - Automated Underwriting System – GUS “Accept”. When a plan is in progress, and GUS has rendered an “Accept” underwriting recommendation, a credit exception in accordance with Section 10.8 of this Chapter is not required. Include payment(s) on the “Asset and Liabilities” application page of GUS.
- Chapter 13 bankruptcy plan completed.
 - Manually underwritten loans. A completed Chapter 13 bankruptcy plan will not require a credit waiver exception provided the applicants have demonstrated a willingness to meet obligations when due for the full 12 months prior to the date of loan application.
 - Automated Underwriting System – GUS “Accept”. The discharge date of the completed plan has been considered by the scorecard and is reflected in the overall credit score. No additional documentation is required.

Attachment 10-B

Chapter 13 Bankruptcy

Chapter 13 Bankruptcy Plan in Progress

Clarification: Guidance is provided for a Chapter 13 bankruptcy in progress.

Clarification: Guidance is provided individually for manually underwritten and GUS Accept loans.

Attachment 10-B

Chapter 13 Bankruptcy

Chapter 13 Bankruptcy Plan Completed

NEW: Section for a completed Chapter 13 bankruptcy.

Clarification: Guidance provided individually for manually underwritten and GUS Accept loans.

Consumer Credit Counseling Plans

- ~~An applicant who has experienced credit or financial management problems in the past may have elected to participate in consumer counseling sessions to learn how to correct or avoid such problems in the future. Participation in a consumer credit counseling program does not disqualify a applicant from obtaining a mortgage loan, provided:~~
 - ~~the lender documents that one year of the pay-out period has elapsed under the plan; and~~
 - ~~the applicant's payment performance has been satisfactory and all required payments have been made on time; and~~
 - ~~written permission from the counseling agency to enter into the mortgage transaction and counselor recommendation of the applicant as a good credit risk is required.~~
- ~~Manually underwritten loans. For manually underwritten loans, The lender must evaluate the applicant's credit in accordance with Paragraph 10.8 of this Chapter. Some creditors may still report the applicant as delinquent, even though they have agreed to accept a lesser payment. This must be considered in the analysis of the applicant's overall credit. Include the repayment plan payment in the liabilities of the applicant(s).~~
- ~~Written permission from the counseling agency to enter into the mortgage transaction and counselor recommendation of the applicant as a good credit risk is required.~~
- Automated Underwriting System – GUS "Accept". The Agency's automated underwriting system does not trigger a requirement for additional documentation since the credit scores already reflect the degradation in credit history. No further explanation or other documentation is required when a lender utilized the Agency's automated underwriting system and receives an "Accept" underwriting recommendation. Include payment(s) for repayment on the "Assets and Liabilities" application page of GUS.

Attachment 10-B

Consumer Credit Counseling Plans

Clarification: All three bullet points must be met when an applicant is currently in a consumer credit counseling plan.

Clarification: Guidance is provided individually for manually underwritten and GUS Accept loans.

Deleted: Written permission from the counseling agency is not required.

Attachment 10-B

Consumer Credit Counseling Plans

Clarification: Include payment(s) on the "Asset and Liabilities" GUS application page. If the debts represented in the counseling plan are on the credit report, no downgrade will be required.

Evaluating Credit Involving Short Sales

The following criteria are applicable to both manual and automated underwriting types.

- A short sale is considered a pre-foreclosure activity or event.
- An applicant is ineligible for a mortgage loan if they pursued a short sale agreement on their principal residence to take advantage of declining market conditions and purchases at a reduced price a similar or superior property within a reasonable commuting distance.
- If an applicant was current at the time of short sale, or in the case of divorce at time of divorce, they may be eligible for a new mortgage loan. The prior mortgage payment history must reflect all mortgage payments due were made on time for the 12 month period preceding the short sale, or time of divorce, and all installment debt payments for the same period were also made within the month due.
- An applicant in default on their mortgage at the time of the short sale (or pre-foreclosure sale) is generally not eligible for a new mortgage loan for three years from the date of pre-foreclosure sale.
- The lender may grant an exception in accordance with Paragraph 10.8 of this Chapter.

Charge-Off Accounts

A charge-off is the declaration by a creditor that an amount of debt is unlikely to be collected. The presence of a charge-off is already reflected in the credit score and does not need to be included in the applicant's long-term liabilities or debt. If the applicant has entered into an agreed upon repayment plan with the creditor, a liability payment will be included in the long-term liability/debt.

Manually underwritten loans. For a manually underwritten loan, the lender will consider a charge-off as a derogatory credit item, to be addressed in with any credit exception considered, if the applicant's credit score is below 640. See Section 10.7A of this Chapter regarding evaluating the credit of applicants with low credit scores.

Automated Underwriting System – GUS "Accept". No documented credit exception is required.

Attachment 10-B

Evaluating Credit Involving Short Sales

Clarification: This short sale guidance applies to manually underwritten and GUS loans.

NEW: Applicants that are divorced with a short sale on their former residence may be eligible.

Clarification: Lenders may grant credit exceptions if 10.8 is met.

Attachment 10-B

Charge-Off Accounts

NEW: A new charge off account section is included to provide individual guidance for manually underwritten and GUS Accept loans.

Clarification: Charge off accounts are not required to be included in the debt ratio.

Clarification: Manually underwritten loans with credit scores below 640 require documented credit exceptions.

Chapter 11: Ratio Analysis

B. The Total Debt Ratio

Applicants are considered to have repayment ability when they do not have to spend more than 41 percent of repayment income on total debt.

Total debt includes monthly housing expense PITI plus any other monthly credit obligations incurred by the applicant.

Obligations for child care, voluntary contributions to retirements such as a 401K, and open accounts with zero balance, are not considered a debt.

The lender must document an applicant's debt through various records including a credit report, direct or third-party verifications, court documents, and verification of deposits for loans. All applicant open debts/accounts (including collection accounts, charge-offs and judgments) incurred through the note date must be included in the calculation of debt payment-to-income ratio and captured under liabilities on the application. Monthly obligation expenses include:

11.2: The Ratios

B. The Total Debt Ratio

Clarification: All open debts, collections, charge-offs, and judgments incurred up to the note date must be listed in the liabilities section of the loan application.

- Long-term obligations with more than ten months repayment remaining on the credit report presented at underwriting, including all installment loans, alimony, child support or separate maintenance payments, student loans and other continuing obligations.

- Revolving accounts. The minimum monthly payment is required for all revolving credit card debts. Monthly payments on revolving or open-ended accounts are counted as a liability for qualifying purposes even if the account appears likely to be paid off within 10 months or less. If the credit report shows an outstanding balance, but no specific minimum monthly payment, the payment will be calculated as the greater of 5 percent of the balance as reported on the credit report, or \$10. If the lender obtains a copy of the current statement reflecting the actual monthly payment, that amount can be used for qualifying purposes. The lender must retain documentation in their permanent loan file. ~~If loan costs paid outside of closing (POC) and early in the application process, such as lock-in fees, origination fees, commitment fees, credit report fees and appraisal fees are charged to the borrower's credit card, but are not reflected in the remaining balance of the credit report obtained, the lender must recalculate the credit card payment to account for the new charges and include the updated payment in the repayment ratio calculation.~~ Revolving accounts with no outstanding balance do not require an estimated payment to be included in the debt ratio or to be closed to exclude a payment from the long-term debt ratio.

- 30-Day Accounts. A 30-day account is a credit arrangement requiring the applicant to pay off the outstanding balance on the account every month. A lender must verify the outstanding balance is paid in full on every 30-day account each month for the past 12 months. 30-day accounts that are paid monthly in full are not included in the applicant's long-term debt ratio. If the credit report reflects any late payments in the last 12 months, a long-term monthly payment will be included. The lender will utilize 5% of the outstanding balance as the applicant's monthly debt. Lenders will utilize the credit report to document the applicant paid the balance on the account monthly for the previous 12 months.

- Student loans. Lenders must include the greater of
 - one percent of the outstanding loan balance, or
 - the payment as reflected on the credit report, verified fixed payment, as reflected on the credit report.

- ~~Exception: Monthly payment amounts listed on the credit report, which are less than one percent of the outstanding balance may be used when evidence from the loan servicer is obtained indicating: 1) the applicant is on a fixed repayment plan not subject to change under the terms of the current agreement and 2) and the monthly payment amount due. Fixed payments have a monthly amount that is not subject to change through the fixed repayment time frame. Income Based Repayment (IBR) plans; plans; graduated plans, adjustable rates, interest only and deferred plans are examples of repayment plans that are subject to change and do not represent a fixed payment or repayment plan. These types of repayment plans are unacceptable to represent a long term fixed payment repayment plan, and do not qualify for the exception. No additional documentation is required if a credit report is obtained and the lender can confirm the payment represented is a fixed payment as noted in this paragraph.~~

11.2: The Ratios

B. The Total Debt Ratio

Clarification: Guidance for the exclusion of debts with ten months or less repayment is provided.

11.2: The Ratios

B. The Total Debt Ratio

Clarification: Debts with no monthly payment will calculate a payment as the greater of 5 percent of the balance reported on the credit report or \$10.

Deleted: The requirement to recalculate a credit card payment if additional fees are incurred during the application process is removed.

Clarification: Revolving accounts marked "paid by close" do not required the account to be closed.

11.2: The Ratios

B. The Total Debt Ratio

NEW: The 30 day account section includes guidance for liabilities that are paid in full each month.

11.2: The Ratios

B. The Total Debt Ratio

Clarification: Student loan payments are simplified. Guidance remains that IBR, graduated, adjustable rate, deferred loans, etc. are not fixed payments and one percent of the loan balance is required for the total debt ratio.

- Previous mortgage. Previous mortgage liabilities disposed of through a sale, trade or transfer without a release of liability will be included in the total debt ratio unless evidence can be obtained to confirm the remaining party (or new owner) has successfully made the payment in the previous 12 months prior to loan application. Documentation to be obtained by the lender includes:

- In the case of a divorce, the lender will obtain a copy of the divorce decree ordering the spouse to make payments.
- If the loan was assumed, sold or traded without a release of liability, a copy of the assumption agreement (as applicable) and deed showing transfer of title out of the applicant's name will be obtained by the lender and retained in the lender's permanent file.
- Documented evidence the new owner has been making regular payments during the previous 12 months with no history of delinquent payment on the loan during that time. Evidence may be reported through the credit report or the lender may verify from the servicer of the assumed loan, a payment history showing that the mortgage has been current during the previous 12 months.
- Loans that are transferred, sold or traded with a history of delinquent payments within the previous 12 months prior to application will be included in the applicant's monthly obligations.

- Co-signed non-mortgage debt/obligations. Debts which have been co-signed (also known as co-borrower, joint obligor or guarantor) are considered a contingent liability. A contingent liability exists when an individual is held responsible for payment of a debt if another party, jointly, or severally obligated, defaults on the payment. A contingent liability applies and the debt by the applicant for another party will be considered in the total debt ratio unless the applicant provides evidence another another-party obligor has made the payment in the previous 12 months prior to loan application. If the applicant can provide conclusive evidence from the debt holder that there is no possibility that the debt holder will pursue debt collection against the applicant should the other party default, the 12 month history is not required. Acceptable evidence that demonstrates the remaining co-obligor's history of making regular payments during the previous 12 months includes canceled checks, money order receipts and/or bank statements of the co-obligor ~~or other third party~~. Late payments reported in the previous 12 months prior to application will require the monthly liability to be included in the long-term repayment ratio of the applicant. Debts identified as "individual" on a credit report will always be considered in the debt ratio regardless of what party is making the monthly payment (as an example, parents making car payments on behalf of applicant; and the loan is in the applicant's name). The legal obligation resides with the applicant when identified as "individual."

- Collection/judgment accounts. Collection accounts, as outlined in Paragraph 10.9 ~~and 10.1~~ of Chapter 10 of this Handbook will be included in the total debt ratio.

11.2: The Ratios

B. The Total Debt Ratio

NEW: Documentation guidance is provided for previous mortgage liabilities.

11.2: The Ratios

B. The Total Debt Ratio

Deleted: "Non-mortgage" and "another party" language has been removed.

Clarification: Co-signors are legally liable for the repayment of the debt. In order to exclude this debt from the total debt ratio, specific documentation is required from the co-obligor.

11.2: The Ratios

B. The Total Debt Ratio

Deleted: Judgment has been removed and has relocated to its own section.

- Judgment accounts. Judgments accounts with a repayment plan already established and a history of consistent repayment underway will be included as a long-term obligation, unless less than 10 months of the repayment plan remains and the lender determines the debt does not have a significant impact on the repayment of the applicant as later explained in this section under short-term liabilities. A letter from the creditor or evidence on the credit report is required to validate the payment arrangements and payment history. Refer to Chapter 10, Section 10.10 for additional guidance on judgments.

- Charge-off accounts. Charge-off accounts are debts written off and are not required to be included in the applicant's liabilities or debt.

- Self-employed. Negative income (loss) for a business will be deducted from repayment income prior to calculating the total debt ratio. It is not counted as recurring debt.

- Short-term obligations that are considered to have a significant impact on repayment ability, such as large medical bills and car or other credit payments. A significant impact on repayment is defined as 5% or greater of the gross monthly income of the applicant(s). Installment debt can be paid down prior to underwriting to a repayment balance less than 10 months; however underwriters can include any debt that in their underwriting analysis is considered a significant impact to the applicant's ability to repay the debt.

- Balloon/deferred payments and Ppayments that will come due in the next 24 months, including personal loans with deferred installments and balloon payments. Additional guidance surrounding student loan repayment is provided earlier in this section and not applicable under this subject. If the interest rate actual payment on a deferred loan is unknown, the lender should estimate the monthly payments using an interest rate that is reasonable and customary for the type of loan 5% of the outstanding balance.

A. Repayment income

The subsidy may be treated as repayment income when calculating a homebuyer's qualifying ratios, and if the subsidy is paid directly to the borrower, it must be treated in this manner. Since the subsidy is non-taxable, it may be "grossed up" by 25 percent and then added to the borrower's income from employment and/or other sources when calculating repayment income. This option of capturing the Section 8 Homeownership Voucher will be the method will be utilized when lenders utilize GUS for their underwriting recommendation.

11.2: The Ratios

B. The Total Debt Ratio

NEW: Judgment accounts have a new section. If less than 10 payments remain on a repayment plan, the underwriter may exclude from the debt ratio.

11.2: The Ratios

B. The Total Debt Ratio

NEW: A charge off account section is included.

11.2: The Ratios

B. The Total Debt Ratio

Clarification: A business loss is deducted from repayment income. It is not a recurring debt.

11.2: The Ratios

B. The Total Debt Ratio

NEW: Guidelines are provided to determine if a debt presents a "significant impact" on repayment ability for a short term obligation.

11.2: The Ratios

B. The Total Debt Ratio

Clarification: The calculation of a payment for a balloon/deferred debt (excluding student loans) will be 5 percent of the loan balance.

11.6: Homeownership Vouchers

A. Repayment Income

Clarification: Section 8 Homeownership Vouchers entered in GUS must gross up the benefit by 25 percent for repayment income on the "Income and Expenses" application page.

11.7 OBLIGATIONS NOT INCLUDED IN DEBT-TO-INCOME RATIOS

Obligations not considered or included in total debt-to-income ratio calculations include:

- Medical collections:
 - Federal, state, and local taxes;
 - Federal Insurance Contribution Act (FICA) contributions;
 - Other retirement contributions such as 401(k) accounts, including the repayment of loans secured by 401(k) funds;
- Automatic deductions to savings accounts, mutual funds, stocks, bonds, certificates of deposit, including the repayment of loans secured by such funds;
- Collateralized loans secured by depository accounts:
- Utilities
- Insurance, other than property insurance
 - Commuting costs;
 - Union dues;
 - Open accounts with zero balances;
 - Child care; and
 - Voluntary deductions.

11.7: Obligations Not Included in Debt-To-Income Ratios

Clarification: This section has been revised to include additional obligations that are not included in the total debt ratio.

Chapter 12: Property and Appraisal Requirements

https://www.fanniemae.com/content/technology_requirements/uad-specification-appendix-d.pdf Information can be found on pages 39-40.

Section 2: Appraisals

12.5: Residential Appraisal Reports

B. Appraisal Report

Clarification: Fannie Mae website address was updated.

If the appraiser considers the property to be unique, has specialized improvements, is new manufactured housing, or the client requests a cost approach to be completed, then the Residential appraisals will be completed using the sales comparison approach and the cost approach to value. The income approach is only needed if the appraiser determines that it is necessary to develop credible assignment results.

- Appraiser/client confidentiality under USPAP Ethics Rules does not permit the appraiser to discuss the appraisal with anyone other than the client, without the client's permission. It is recommended, but not required, that USDA/RD be identified as an intended user with the lender in the appraisal report obtained.
- The market or sales comparison approach is required in all cases. Not less than three comparable sales will be used unless the appraiser provides documentation that such comparable sales are not available. The appraiser must use their knowledge, of the area, and apply good judgment in the selection of comparable sales that are the best indicators of value for the subject property.
- For properties considered to be unique, has specialized improvements, new manufactured housing or if requested by the client, the "Estimated Reproduction Cost-New of Improvements" cost approach will be completed, when the dwelling is less than 1 year old. Either the "Estimated Reproduction Cost" or the "Estimated Replacement Cost" will be completed for all dwellings that have an actual age of more than 1 year. The appraiser will identify the source of the cost estimates and will comment on the methodology used to estimate depreciation, effective age and remaining economic life.

Photographs. Photographs in the appraisal report must be clear and descriptive to be able to identify the property's condition and quality. Acceptable photographs include color original images from photographs or electronic images. Photographs must clearly represent the improvements, any physical deterioration of the property, amenities, conditions and external influences that may have a material effect on the market value or marketability of the subject property. Lenders who utilize the Agency's automated underwriting system, GUS, will upload the appraisal report at the Lender Upload Document(s) page as an individual document. An appraisal report with interior and exterior inspection of the subject property must include at least the following:

- A front view of the subject property.
- A rear view of the subject property.
- A street scene identifying the location of the subject property and showing neighboring improvements.
- The kitchen, main living area, bathrooms, bedrooms.
- Any other rooms representing overall condition, recent updates, such as restoration, remodeling and renovation.
- Basement, attic and crawl space.
- Comparable Sales, listings, and/or pending sales utilized in the valuation analysis must include at least a front view of each comparable utilized.
- Condominium projects should include additional photographs of the common areas and shared amenities.

Section 2: Appraisals

12.5: Residential Appraisal Reports

B. Appraisal Report

Clarification: The cost approach may be completed at the appraiser or lenders request.

NEW: USDA may be added to the appraisal as an intended user, but it is not required.

Clarification: The market or sales comparison is required for all appraisals.

Deleted: The requirement of the estimated reproduction cost and estimated replacement cost for a dwelling less than one year old has been removed. This language was revoked in a SFH Origination ListServ published May 14, 2015.

Section 2: Appraisals

12.5: Residential Appraisal Reports

B. Appraisal Report

NEW: Specific photograph requirements for the appraisal are added.

Clarification: Guidance to upload the appraisal into GUS is included.

Property flipping. It remains the lenders responsibility to ensure any recently sold property's value is strongly supported when a significant increase between sales occur. The lender must perform a thorough review of the appraisal report to validate and support the property's value and protect the applicants from possible predatory real estate lending.

- The well location for individual water supply systems must be measured to establish the distance from the septic system. Distances must meet ~~the most aggressive~~ either approach of the local and/or State Health Authority codes or SF Handbook (HUD Handbook ~~4150.24000.1~~)

12.7 STREET ACCESS AND ROAD MAINTENANCE [7 CFR 3555.201]

A. Access

The site must be contiguous to, and have direct access from, a public or private street, road, or driveway. Private roads or streets are acceptable provided each property has vehicular or pedestrian access. Private roads or streets must be protected by permanent

recorded easement (non-exclusive and non-revocable easement without trespass from the property to a public street) or the street must be maintained by a homeowners association (HOA). Shared driveways must also meet these requirements. If the driveway is shared, there must be a requiring a permanently recorded easement for ingress and egress. Evidence of a road maintenance agreement is not required. This agreement must be binding to successors and title. A copy of a title report, retained in the lender's mortgage file, may be used to evidence the easement. Private streets must have a permanently recorded easement or be owned and maintained by a Home Owners Association (HOA). All recorded easements must be reviewed and approved by the approved lender's underwriter and documented in the lender's permanent loan file.

An existing dwelling may be attached, detached or semi-detached dwellings and must be inspected to determine that the dwelling meets the current requirements of:

- ~~Single Family Housing Policy Handbook (SF Handbook; HUD Handbook 4150.24000.1), or as superseded by HUD; Valuation Analysis for Home Mortgage Insurance for Single Family One to Four Unit Dwellings (Appraisal Handbook); and~~
- ~~HUD Handbook 4905.1, Requirements for Existing Housing One to Four Family Living Units.~~

Section 2: Appraisals

12.5: Residential Appraisal Reports

B. Appraisal Report

NEW: Guidance is provided for "property flipping."

Section 2: Appraisals

12.6: Water and Wastewater Disposal Systems

A. Water

1. Individual Privately Owned

Deleted: The "most aggressive" approach language has been deleted. The system must only meet one of the stated distance requirements.

Clarification: HUD Handbook reference is updated to 4000.1.

Section 2: Appraisals

12.7: Street Access and Road Maintenance

A. Access

Clarification: Guidance is provided for private roads, streets, and shared driveways.

Clarification: A road maintenance agreement is not required.

Section 3: Dwelling Requirements

12.9: Existing and New Dwellings

A. Existing Dwellings

Clarification: All previous references to "HUD Handbooks 4105.2 and 4905.1" have been replaced with "SFH Handbook (HUD Handbook 4000.1) or as superseded by HUD." This change will always enforce the most current version of HUD's minimum property standards.

C. Repair Escrows [7 CFR 3555.202(c)]

Repair escrows for essential repairs identified by a qualified inspector needed to meet minimum property standards as defined by SF Handbook (HUD Handbook 4000.1) are acceptable provided the home is habitable. All items of new construction must be 100 percent (100%) complete in accordance with plans and specifications except for minor items not affecting the livability of the structure or that cannot be completed due to weather conditions. The lender assumes responsibility for completion of repairs in accordance with the conditions set forth in this Section for any repair escrow established.

Examples of repairs that cannot be escrowed for post-closing repair is the roof, foundation, repairs to the home's basic structure, a system for electricity, plumbing or the delivery of heating fuel. This list is not all inclusive.

The combination of both exterior AND interior repair escrows cannot exceed 10 percent of the final loan amount. Most repairs items will be required to be completed within 180 days of loan closing. This period may be extended, at the discretion of the Agency, for homes that need exterior repairs but are in an area experiencing inclement weather conditions. The maximum exterior repair escrow period when an extension is granted is limited to 240 days. Extensions may be granted beyond 180 days for exterior escrows only.

C. Escrow for Exterior Development [7 CFR 3555.202(e)]

When exterior development work is planned and cannot be completed because of inclement weather, material shortages, or other acceptable reasons, an escrow account may be established. The Agency may issue a Loan Note Guarantee prior to the completion of repairs provided all of the following conditions are met:

- The cost of any remaining work, ~~exterior or interior~~, is not greater than 10 percent of the final loan amount, provided an interior escrow is not required;
- The livability of the dwelling is not affected;
- A signed contract between the borrower and the contractor is in effect for the proposed work;
- ~~and the~~ The funds to be escrowed are not less than ~~the~~ the repair cost contract. The loan underwriter may determine the escrow amount, which could exceed the repair cost;
- The HUD-1 reflects the holdback;
- The development will be complete within 180 days of closing, unless an extension is granted by the Agency for inclement weather conditions; and

Section 3: Dwelling Requirements 12.9: Existing and New Dwellings C. Repair Escrows

NEW: Guidance is provided for essential repairs, the determination of a complete dwelling, and lender risk when escrows are established.

NEW: Examples of repairs that cannot be escrowed for post-closing are included, but are not all inclusive.

Clarification: The cost of exterior and interior repairs combined cannot exceed 10 percent of the final loan amount.

NEW: Timeframes to complete exterior repairs may exceed 180 days post loan closing at the discretion of USDA.

Section 3: Dwelling Requirements 12.9: Existing and New Dwellings C. Repair Escrows

Clarification: All of the bulleted items must be met for exterior escrow development.

Clarification: 10 percent of the final loan amount is the maximum for escrows (exterior and interior combined).

Clarification: The underwriter may determine additional escrowed funds are required above the USDA minimum.

NEW: Exterior repairs may be granted an extension for completion by USDA.

- The escrow account is established in a federally supervised financial institution.
- An inspection report certifying the defect/repair has been properly repaired. Certification of completion is required to verify the work was completed and must:
 - Be completed by the appraiser;
 - State that the improvements were completed in accordance with the requirements and conditions in the original appraisal report;
 - Be accompanied by photographs of the completed improvements; and
 - The individual performing the final inspection of the property must sign the completion report.

The lender is responsible for monitoring the completion of the work and the release of funds for payment. Documentation supporting the development work and confirmation of the completion will be retained in the lenders permanent mortgage file and is subject to the certification of Form RD 3555-18/18E. Funds remaining in the escrow account, that are representative of loan funds or a seller concession as part of the sales contract, upon completion of the work, will be used to reduce the unpaid principal balance of the mortgage. Personal funds of the applicant utilized to fund the repair escrow (excluding loan funds or a seller concession) may be returned to the applicant. A seller's personal funds utilized to fund the repair escrow (excluding a seller concession as part of the sales contract) may be returned to the seller.

~~D. Escrow for Interior Development [7 CFR 3555.202(c)]~~

Escrow for Interior Development

Repair escrows for interior repairs are subject to 10 percent when an exterior escrow for repairs has not been established. Otherwise, the combination of both an interior AND exterior repair escrow is subject to a maximum of 10 percent of the loan amount.

When the dwelling is complete with the exception of minor interior development work, the Agency may issue the loan note guarantee on the loan if the following conditions are met when establishing an interior escrow:

- The cost of any remaining interior work is not greater than 10 percent of the final loan amount provided an exterior escrow is not required;

Section 3: Dwelling Requirements

12.9: Existing and New Dwellings

C. Repair Escrows

Clarification: The certification that repairs are completed properly must be an inspection report.

Clarification: Remaining escrow funds that are loan funds or seller concessions (as stated in the purchase agreement) must be applied to the principal balance of the loan.

NEW: Remaining escrow funds that are personal funds (obtained directly from the applicant's personal account or the seller's personal account) may be returned to the applicant and/or seller.

Section 3: Dwelling Requirements

12.9: Existing and New Dwellings

C. Repair Escrows

Clarification: 10 percent of the final loan amount is the maximum for escrows (exterior and interior combined).

Clarification: The loan note guarantee may be issued when all of the bulleted conditions are met for an interior escrow.

- The livability of the dwelling is not affected;
- A signed contract between the borrower and the contractor is in effect for the proposed repair work;
- ~~and the~~ The funds to be escrowed are not less ~~than the~~ than the contractor's repair contract. The loan underwriter may determine the escrow amount, which could exceed the repair cost;
- The HUD-1 reflects the holdback;
- The development will be complete within 180 days of closing; and
- The escrow account is established in a federally supervised financial institution.
- An inspection report certifying the defect/repair has been properly repaired. Certification of completion is required to verify the work was completed and must:
 - Be completed by the appraiser,
 - State that the improvements were completed in accordance with the requirements and conditions in the original appraisal report, and
 - Be accompanied by photographs of the completed improvements.
 - The individual performing the final inspection of the property must sign the completion report.

The lender is responsible for monitoring the completion of the work and the release of funds to pay for the work. All documentation supporting the development and confirmation of the completion will be retained in the lender's permanent mortgage file. and is subject to the certification of Form RD 3555-18/18E. Any funds remaining in the escrow account upon completion of the work- that are representative of loan funds or a seller concession as part of the will sales contract, will be used to reduce the unpaid principal balance of the mortgage. Personal funds of the applicant utilized to fund the repair escrow (excluding loan funds or a seller concession) may be returned to the applicant. A seller's personal funds utilized to fund the repair escrow (excluding a seller concession as part of the sales contract) may be returned to the seller.

Section 3: Dwelling Requirements

12.9: Existing and New Dwellings

C. Repair Escrows

Clarification: The underwriter may determine additional escrowed funds are required above the USDA minimum.

Clarification: The certification that repairs are completed properly must be an inspection report.

Clarification: Remaining escrow funds that are loan funds or seller concessions (as stated in the purchase agreement) must be applied to the principal balance of the loan.

NEW: Remaining escrow funds that are personal funds (obtained directly from the applicant's personal account or the seller's personal account) may be returned to the applicant and/or seller.

E. Escrow Completion without the Assistance of a Contractor

Escrow completion for interior or exterior repairs on an existing dwelling – without the assistance of a contractor

When a borrower will complete the planned interior or exterior development on an existing dwelling without the services of a contractor, the requirement for an executed contract noted in this section is waived when these three conditions are met:

- The estimated cost to complete the work is less-not greater than 10 percent of the total loan amount; and
- The escrow amount is less than or equal to \$10,000; and
- The lender has determined the borrower has the knowledge, and skills and time necessary to complete the work within the maximum 180 day limit.

All remaining requirements as noted at Paragraph 12.9 C and 12.9 D are applicable. The lender is responsible for monitoring the completion of the work and the release of funds for payment of the work. All documentation supporting the planned development and completion will be retained in the lender's permanent mortgage file and is subject to the certification of Form RD 3555-18/18E. Funds remaining in the escrow account upon completion of the work, that are representative of loan funds or a seller concession, as part of the sales contract, will be used to reduce the unpaid principal balance of the mortgage. Personal funds of the applicant utilized to fund the repair escrow (excluding loan funds or a seller concession) may be returned to the applicant. A seller's personal funds utilized to fund the repair escrow (excluding a seller concession as part of the sales contract) may be returned to the seller.

from the primary residential structure and do not serve as a residence, such as sheds, garages, or other ancillary structures. Existing dwellings financed through the SFHGLP are not subject to the requirement within 7 CFR 1940 Subpart G Exhibit C which requires a search for practicable off-site alternatives to purchasing an existing dwelling within the SFHA.

- Documentation is included in the file in accordance with 7 CFR 1940 Subpart G Exhibit C, that there is a demonstrated need for the SFHGLP and there are no practicable alternatives to new construction within the SFHA.

Section 3: Dwelling Requirements **12.9: Existing and New Dwellings** **C. Repair Escrows**

Clarification: Escrow completion for interior or exterior repairs may be completed without a contractor.

Clarification: Estimated cost to complete the work cannot be greater than 10 percent of the loan amount and the additional bulleted items.

NEW: Borrower executed repairs must be completed within 180 days.

Clarification: Remaining escrow funds that are loan funds or seller concessions (as stated in the purchase agreement) must be applied to the principal balance of the loan.

NEW: Remaining escrow funds that are personal funds (obtained directly from the applicant's personal account or the seller's personal account) may be returned to the applicant and/or seller.

Section 4: Environmental Requirements **12.10: Hazard Identification** **B. Flood**

Clarification: No alternative search is required for existing dwellings located in SFHAs.

Section 4: Environmental Requirements **12.10: Hazard Identification** **B. Flood**

NEW: Document the file to verify there are no practical alternatives to new construction in the SFHA.

Existing dwellings and newly constructed dwellings located within the SFHA which are not served by public sewer systems and have on-site septic or sewage treatment systems must have a drinking water supply which is protected from cross contamination from the onsite septic/sewage treatment during flooding. A property serviced by an on-site septic or sewage treatment system is eligible under this Section, provided one of the following can be met:

- The property is served by a publically provided water supply.
- The property is serviced by a private drinking water well/supply with a fitted sanitary well cap which prevents backflow floodwater from entering the drinking supply well.
- The property is served by a private drinking water well/supply whose opening is located above the base flood elevation of the SFHA. Additional documentation, such as an elevation certificate, will be required to verify this type of property.

12.16 ELIGIBLE LOAN COSTS

The loan will be used to finance the construction of a new single family housing residence, which can include modular and manufactured home construction. Condominiums ~~or manufactured homes~~ are ineligible for this type of loan feature. Site condominiums meeting the criteria of Section 12.11 A (2) of this Chapter may be eligible to utilize with the construction to permanent loan product feature. Loan costs will be reasonable and customary construction costs ~~s-uehsuch~~ such as:

The term of the loan is thirty years. When construction is complete as evidenced by a Certificate of Occupancy or final inspection, the loan must be amortized to achieve full repayment within its remaining term. Lenders must also provide an executed Loan ~~Modification~~ Reamortization Agreement to confirm the existence of the permanent loan and the corresponding amortizing interest rate on the mortgage loan. The permanent mortgage loan interest rate is established at closing and must be in accordance with Chapter 7 of this Handbook.

Section 4: Environmental Requirements 12.10: Hazard Identification B. Flood

NEW: Guidance is provided for existing and new construction dwellings located in a SFHA that have private septic/sewer systems. Requirements are provided to protect drinking water from contamination.

Section 7: Combination Construction Permanent Loans 12.16: Eligible Loan Costs

NEW: Manufactured homes and site condominiums may be eligible for the single close construction program.

Section 7: Combination Construction Permanent Loans 12.21: Loan Closing

Clarification: "Loan Modification Agreement" was changed to "Loan Reamortization Agreement." This change is also reflected on Attachment 12-D.

Chapter 13:

NO REVISIONS

Chapter 14: Funding

14.7 AGENCY ACTION – REQUEST FOR RESTORATION OF FUNDS

The Program Funds Control Branch (PFCB) of the National Finance and Accounting Office Center (NFAOC) in St. Louis, Missouri will review and approve/deny all restoration of funds requests. The following actions are required to submit a request for restoration of funds:

1. A fully completed “Request for Restoration of Funds form a Prior Fiscal Year” form.
 - Agency personnel will complete the form electronically via Adobe.
 - The form will be electronically signed with your LINC Pass (PIV) card.
 - The form should be saved (not printed and scanned).
 - Find the fillable form on the Agency’s SharePoint website under the folder “Funding”.
2. A copy of all Conditional Commitments issued for the loan.
3. If the Agency extended the Conditional Commitment, documentation pertaining to the lender’s request and the Agency’s approval must be included with the restoration request. Dates are required.
4. A detailed explanation must be entered on the form to indicate whether the Agency or lender is at fault.
5. If the restoration request is for a higher obligation amount than the original obligation, then additional document is required. The Agency must demonstrate that the loan request was reviewed for repayment at the higher amount and the loan amount does not exceed the maximum amount based on the property’s appraised value.
6. If the request is for a restoration of funds where the lender did not comply with regulatory requirements, an exception to the regulatory requirement will be required. Submit a request in accordance with Chapter 1, Section 1-9 of this Handbook. A copy of the approved exception must be submitted with the request for a restoration of funds.
7. Completed “Request for Restoration of Funds from a Prior Fiscal Year” forms and all documentation must be submitted electronically to the technician in St. Louis who is assigned your State at the Housing Services Branch (HSB/NFAOC).

14.7: Agency Action – Request for Restoration of Funds

NEW: Agency guidance is outlined to request a restoration of funds.

Chapter 15: Submitting the Application Package

To determine whether an applicant is eligible to participate in an SFHGLP mortgage loan transaction, the lender must examine the GSA List and CAIVRS and document their permanent case file with results. An applicant is ineligible ~~if~~ if he/she is presently delinquent on any Federal debt or is..... suspended or debarred, or otherwise excluded from participating in Rural Development programs. The GSA list may be found at: <https://www.sam.gov/portal/public/SAM/>. Lenders who utilize an automated method that creates a report, similar to a watch list, which performs a check of the SAM website, will meet the criteria of this check. Lenders will certify on Form RD 3555-21 the applicant(s) and all parties to the mortgage transactions are not on the GSA list. This check is applicable to each financial transaction submitted to the Agency. All other parties to the mortgage transaction can be:

Documentation: Lenders will retain evidence they followed the appropriate procedures and confirmed eligibility for all participants involved in the transaction. The lender will check the “Yes” box on Form RD 3555-21 at “GSA/SAM Exclusion” and “System for Award Management (SAM) indicates a party to the transaction is debarred from business with the Federal government” on GUS transactions. Include the date SAM was checked.

15.2: Lender Responsibility

Clarification: Lenders are not required to check the SAM website directly. Automated methods to verify SAM are eligible.

15.2: Lender Responsibility

Clarification: Lenders must retain evidence of their SAM check.

15.3 CONTENTS OF LOAN APPLICATION PACKAGE

Manually underwritten loans

Manually underwritten loans are those applications reviewed and approved by the underwriter or applications underwritten with the assistance of GUS that receive an underwriting recommendation of “Refer” or “Refer with Caution.” For manually underwritten loans, the lender must submit a fully documented loan application package to Rural Development. ~~Although, A manually underwritten application packages may be submitted by email, or hard copies delivered to the Agency.~~ The preferred method of the Agency is electronic. Lenders are expected to utilize the automated method of submitting origination requests ~~when announced by to~~ the Agency. Use of the electronic method through the Agency’s automated underwriting system, GUS, streamlines the delivery, review and issuance of a Conditional Commitment. A Technical Bulletin regarding “Streamline Issuance of Conditional Commitment – Lenders” is posted to the following resource site: Until implemented, the following link provides information regarding delivery of electronic documents, by state: <https://usdalinc.sc.egov.usda.gov/USDALincTrainingResourceLib.do>. Scroll to Loan Origination, and select “Identification of Electronic Delivery.” Loans that are not delivered via the automated method must Lenders should protect personally identifiable information when communicating electronically. *Form RD 3555-21* summarizes the details of the loan to be guaranteed and requires the lender to certify that all eligibility requirements have been met. See Attachment 15-A for a checklist of items to be provided in the loan package submitted to the Agency. The following information must be provided for the application to be considered complete.

- All pages of the current version of *Form RD 3555-21* signed and dated by the applicant(s) and the approved lender submitting the request, or their designated representative. The form must be completed prior to signature by the applicant(s). ~~Applicant(s) should not be executing a blank~~

~~form.~~ The lender is responsible for reviewing the contents of the form, acknowledgements and certifications with the applicant(s).

- The lender’s confirmation they have checked GAO’s System for Award Management (SAM.gov) and have confirmed the applicant(s) and all parties participating in the Rural Development guarantee are not debarred from doing business with the Federal government. Refer to Section 15.2 of this Chapter to identify all parties participating in the loan guarantee request. Certification of this action is recorded on *Form RD 3555-21*.
- Summary of the calculation of annual income, adjusted income (to qualify for the SFHGLP) and repayment income calculations. Include documentation for all adult members of the household. Documentation to include IRS 4506-T tax transcripts, verifications of employment and other income verification documentation such as asset documentation. See chapter 9 of this Handbook for additional guidance.
- Credit report(s). Include the credit report of a non-purchasing spouse if property is located in a community property state. Include any non-traditional report and all credit supplements.
- Verification of Rental. Include documentation to support rental history in the previous 12 months prior to application, as applicable, for all manually underwritten loans. See Chapter 10 of this Handbook, Section 10.13 for additional guidance on obtaining rent verification.

15.3: Contents of Loan Application Package

Deleted: The option to submit a manually underwritten loan through hard copy to USDA is removed.

NEW: Guidance for electronic submission of guaranteed loans, including a link to the Technical Bulletin, is provided.

15.3: Contents of Loan Application Package

Deleted: “Applicant(s) should not be executing a blank form” has been removed.

15.3: Contents of Loan Application Package

Clarification: Reference to 15.2 to ensure all required parties have been checked through SAM.

Clarification: Addition of VOR if applicable for manually underwritten loan file documentation.

Automated Underwriting System - GUS "Accept"

Loans underwritten with the assistance of GUS ~~that receive~~ receiving an underwriting recommendation of "Accept" may allow the lender to submit abbreviated documentation when compared to manually underwritten loans when requesting a *Conditional Commitment for Single Family Housing Loan Guarantee*. The lender certifies upon "final" submission the loan has been reviewed, underwritten and the data entered into GUS is true, complete and accurate. Lenders must review and satisfy pre-Conditional Commitment conditions identified on the final GUS Underwriting and Findings Analysis Report prior to submitting the loan to the Agency. Lenders who utilize GUS will be validating the findings provided with the underwriting recommendation in their permanent case file. Unless a quality control message requires the lender to submit a full documentation file, the lender may submit the following completed documents to obtain a Conditional Commitment for Loan Guarantee:

- All pages of the current version of *Form RD 3555-21* signed, ~~and~~ dated ~~and initialed~~ by the applicant(s) and lender, or lender's representative.
- Summary of the calculation of annual income, adjusted income (to qualify for the SFHGLP) and repayment income calculations.
- Include the credit report, of a non-purchasing spouse, if property is located in a community property state.
- Appraisal of real estate property which includes *Form 1004MC*
- The final GUS Underwriting and Findings Analysis.
- FEMA Form 086-0-32.
- If the applicant(s) is not a United States citizen, evidence the applicant(s) meets the qualified ~~alien~~ ~~Non-resident alien~~ criteria set forth in Chapter 8 of this Handbook.
- If a ~~buydown~~ ~~buy-down~~ is involved, documentation in accordance with Chapter 11, Paragraph 11.5 of this Handbook.

Although the lender must underwrite the applicant and property information to ensure that the loan meets all program criteria, the Agency must review the lender's documentation to ensure that loans, to be guaranteed, meet program requirements. The following summarizes the criteria Agency staff use to ensure that each program requirement has been met. Agency staff will utilize Attachment 15-B in their review of loan note guarantee requests. ~~It was designed to be utilized as a tool to assist in developing, processing and closing a SFHGLP. The following checklists have been developed as a tool for use by the Agency to ensure consistent delivery nationwide. The checklists have been separated by the type of file as noted below.~~

Attach	Type of File	Explanation
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required by state law, the maximum deductible clause for a flood insurance policy should not exceed the greater of \$1,000 or 1 percent of the face amount of the policy. The Agency will perform an environmental review in accordance with RD Instruction 1940-G. Existing dwellings for the SFHGLP are eligible if flood insurance is available. Existing properties are not subject to the Agency's requirements within RD Instruction 1940-G Exhibit C. Additional requirements, in accordance with Chapter 12 of this Handbook may be required when a property is not served by a public sewer system. See Section 12.10B of Chapter 12 for additional information.

15.3: Contents of Loan Application Package

Deleted: Initials have been removed from the bottom of each page of Form RD 3555-21.

Clarification: "Alien" has been revised to "non-resident alien." The spelling of "buy-down" was changed.

15.5: Agency Review of Loan Application Package

A. Content of Standard Review

Deleted: The checklist table has been removed.

15.5: Agency Review of Loan Application Package

A. Content of Standard Review

5. Environmental Review

NEW: Guidance is included in reference to flood insurance requirements and safe water precautions when properties are located in a SFHA.

B. Agency Review of Lender's Underwriting Decisions

The Agency generally does not review the content of a lender's underwriting analysis as it remains the approved lenders responsibility to underwrite loans to the SFHGLP. However, under limited circumstances, the Agency will review the lender's underwriting decisions. When the Agency determines that a lender's application must be reviewed more thoroughly, the Agency will notify the lender in writing. The goal of the additional review is to help the lender submit application packages that are acceptable on the first review. The maximum turn-around time, by the Agency, for review in these cases is not to exceed four business days. Lenders will receive official notification by the Agency when any delay beyond 4 business days for turn-around in response to a commitment request results. The Agency will review the lender's underwriting decisions under the following circumstances.

A. The Request for a Loan Guarantee is Approved

If the Agency review indicates the loan meets all program requirements, the Agency will agree to guarantee the loan, subject to the conditions provided on *Form RD 3555-18 or RD 3555-18E* (when submitted electronically). The Agency will inform the lender of the approval by mail or e-mail with *Form RD 3555-18/18E* after entering the application information into the Guaranteed Loan System. The commitment will expire in 90 days from issuance unless new construction is involved, which then the expiration date of *Form RD 3555-18/18E* will correspond with the projected completion of the construction. The expiration date of *Form RD 3555-18/18E* for new construction should not exceed one year from the issuance of the Conditional Commitment unless the State Director publishes a statement supplement to this Chapter to allow a longer term based upon special circumstances. ~~One~~ 90 day extension can be granted in accordance with Chapter 16 of this Handbook, provided circumstances beyond control are present.

C. ~~Return of The Application is Incomplete~~ Applications

Lenders must ensure that the application requests are submitted in accordance with the instructions specified in the Attachment 15-A. A complete application request must contain all documents listed in Attachment 15-A. Lenders must ensure the documents are submitted in the stacking order noted with the first document in the bundle being the actual completed Attachment 15-A. An exception to the stacking order is the Appraisal Report, which for those lenders utilizing GUS will be uploaded separately from all other documents. Lenders should submit only the identified document in the Attachment. If the application request is missing information that is required by the Attachment 15-A, the application request will be deemed incomplete and the needed for the Agency to respond to the request, the Agency will return the application package to the lender. Completed applications are processed in date order by the Agency. Only complete application requests will be considered for processing by the Agency. eontact the lender, in writing (typically by email), with a list of the specific items that are missing, incomplete, or inadequate. The lender must correct the deficiencies within 10 business days or the application package will be returned to the lender.

D. The Request for a Loan Guarantee is Denied

The loan guarantee request will be denied if the proposed loan fails to meet any program requirement or Agency staff cannot concur with a requested ratio waiver. The loan must be for an eligible purpose, an eligible rural property, to an eligible applicant, and underwritten by an Agency approved lender. If the application review indicates that any of these criteria have not been met, the Agency will notify the lender in writing of the reason for the denial, and will provide review and appeal rights as described in Appendix 3 of this Handbook. The Agency must capture data regarding the individual loan guarantee denial in the Agency's GLS database.

15.5: Agency Review of Loan Application Package

B. Agency Review of Lender's Underwriting Decisions

NEW: The Agency will notify lenders if file processing times will exceed 4 business days.

15.6: Lender Notification on Request For Loan Guarantee

A. The Request for a Loan Guarantee is Approved

NEW: The addition of "E" to Form RD 3555-18 is added to indicate the commitment was issued electronically.

NEW: The expiration date of Form RD 3555-18/18E should not exceed one year from date of issuance, pending State Director supplements for special circumstances.

15.6: Lender Notification on Request For Loan Guarantee

C. Return of Incomplete Applications

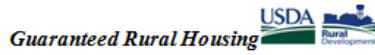
NEW: Incomplete loan applications that do not meet documentation requirements may be returned to the approved USDA lender for correction. Only complete loan applications may be placed for review by USDA.

15.6: Lender Notification on Request For Loan Guarantee

D. The Request for a Loan Guarantee is Denied

Clarification: Denied loan files must be processed as applicable by USDA in GLS.

ATTACHMENT 15-A



Origination Stacking Order Checklist

Lender Instructions: Submit the identified documents in the order noted with the first document in the bundle being this Attachment. Submit only the identified documents. Include complete documentation for the specific file type identified to ensure an effective file flow. Documents must not exceed the maximum allowable age set forth in 7 CFR 3555 Handbook. Rural Development will consider all documents submitted as the certified and true copies of the original documents retained in the lender's permanent file. Electronic delivery to Rural Development is the preferred method. See electronic delivery information by state <https://usdaolinc.sc.egov.usda.gov/RHShome.do>. In the subject line identify the case by: Loan Origination: Borrower Last Name, First Name

General Information		
Applicant(s):	Lender:	Date:

File Stacking Order Checklist
Guaranteed Underwriting System (GUS) - Underwriting Recommendation: ACCEPT

Please stack the credit package in the following document order:

<input type="checkbox"/>	Form RD 3555-21, "Request for Single Family Housing Loan Guarantee Note: Must be completed and executed by all applicants and lender.
<input checked="" type="checkbox"/>	Income Calculation Worksheet For Calculating Income
<input type="checkbox"/>	Final GUS Underwriting Findings and Analysis Report Note: Last final submission to be printed, retained in lender's permanent loan file.
<input type="checkbox"/>	FEMA Form 086-0-32, "Standard Flood Determination Form" Note: New construction properties located in 100-year flood plains will require additional documentation. Confirmation the base flood elevation (BFE) is below lowest floor of subject.
<input type="checkbox"/>	Evidence of qualified alien (if the applicant is not a US citizen)
<input type="checkbox"/>	Credit Report, Non-Purchasing Spouse (if the applicant or property is in a community property state - AZ, CA, ID, LA, NV, NM, TX, WA, WI)
<input type="checkbox"/>	Uniform Residential Appraisal Report (URAR) (FNMA 1004/FHLMC 70 or applicable Report) Note: 1004 MC (Market Conditions Addendum) must be part of report.

Attachment 15-A: Origination Stacking Order Checklist

Deleted: The income worksheet was removed as an individual document because it is part of a complete Form RD 3555-21.

File Stacking Order Checklist	
Manual Underwriting, GUS Refer/Refer with Caution Underwriting Recommendation, GUS Accept if Quality Control Lender Message on GUS Underwriting Findings and Analysis Report	
Please stack the credit package in the following document order:	
<input type="checkbox"/>	Form RD 3555-21, "Request for Single Family Housing Loan Guarantee Note: Must be completed and executed by all applicants and lender.
<input checked="" type="checkbox"/>	Income Calculations Worksheet For Calculating Income
<input type="checkbox"/>	Final GUS Underwriting Findings and Analysis Report, if applicable Note: Last final submission.
<input type="checkbox"/>	Underwriting Analysis, confirmed and executed by Underwriter (FNMA 1008/FHLMC 1077 or similar) Note: Include credit waiver and/or repayment ratio waiver request in comment section. A GUS ACCEPT with quality control message does not require credit or repayment ratio documentation/justification. Include supporting documentation when credit package includes a buy down.
<input type="checkbox"/>	Uniform Residential Loan Application (URLA – FNMA 1003/FHLMC 65) Note: URLA must be executed by the interviewing lender and applicant(s).
<input type="checkbox"/>	Income Verification Documentation: For all household members Verification of Employment (VOE) + (1) earning statement OR verbal VOE + (2) earning statements (30 days) + W-2's (2 years) OR computer generated verification + W-2's (2 years) + verbal VOE Self-Employment: income tax returns/ all schedules (2 years) + profit/ loss, balance and income/expense statements Child support, pensions, disability, social Security, retirement annuity award(s)
<input checked="" type="checkbox"/>	Tax return information as a result of IRS 4506-T: Request for Transcript of Tax Return Note: Required for all adult members of the household
<input type="checkbox"/>	Asset Verification Documentation: For all household members Verification of Deposit, bank statements, gift letter etc.
<input type="checkbox"/>	Credit Report, Non-Traditional Report and all credit supplements, as applicable Note: Include adverse credit explanation and documentation used in credit waiver.
<input type="checkbox"/>	Credit Report, Non-Purchasing Spouse (if the applicant or property is in a community property state – AZ, CA, ID, LA, NV, NM, TX, WA, WI)
<input checked="" type="checkbox"/>	Verification of Rent, as applicable. See Section 10.13 of Chapter 10 for further guidance. Note: Applicable to manually underwritten loans with credit scores less than 680. A GUS "Accept" subject to a fully documented file does not require a "Verification of Rent."
<input type="checkbox"/>	FEMA Form 086-0-32, "Standard Flood Determination Form" Note: New construction properties located in 100-year flood plains will require additional documentation. Confirmation the base flood elevation (BFE) is below lowest floor of subject.
<input type="checkbox"/>	Sales Contract, all pages and amendments
<input type="checkbox"/>	Evidence of qualified alien (if the applicant is not a US citizen)
<input type="checkbox"/>	Uniform Residential Appraisal Report (URAR) – not applicable to Streamlined Refinance Product (FNMA 1004/FHLMC 70 or applicable Report) Note: 1004 MC (Market Conditions Addendum) must be part of report.

Attachment 15-A: Origination Stacking Order Checklist

Deleted: The income worksheet was removed as an individual document because it is part of a complete Form RD 3555-21.

NEW: IRS 4506-T requirement added to checklist.

NEW: Verification of Rent added to checklist and required as applicable.

Attachment 15-B
Rural Development - Guaranteed Rural Housing
Agency Documentation and Processing Checklist (Internal Agency Use)

		Loan Request: \$ _____
		Loan Purpose: <input type="checkbox"/> Purchase — Sales Price: \$ _____
		<input type="checkbox"/> Refinance — Amount: \$ _____
		If a Refinance, the loan being refinanced is a RD Single Family Housing
		<input type="checkbox"/> Guaranteed Loan <input type="checkbox"/> Direct Loan
		If a Refinance is a <input type="checkbox"/> Streamlined <input type="checkbox"/> Non-streamlined
		<input type="checkbox"/> Rural Refinance Pilot
		Additional Loan Purposes:
		<input type="checkbox"/> Closing Costs: \$ _____ <input type="checkbox"/> Repairs: \$ _____
		<input type="checkbox"/> Guarantee Fee: \$ _____ <input type="checkbox"/> Other: \$ _____
		<input type="checkbox"/> Escrow: \$ _____
Applicant Information		Co-Applicant
Name: _____		Name: _____
SSN: _____	DOB: _____	SSN: _____ DOB: _____
Borrower ID: _____		Co-Borrower ID: _____
First-Time Homebuyer <input type="checkbox"/> Yes <input type="checkbox"/> No		First-Time Homebuyer <input type="checkbox"/> Yes <input type="checkbox"/> No
Veteran <input type="checkbox"/> Yes <input type="checkbox"/> No		Veteran <input type="checkbox"/> Yes <input type="checkbox"/> No
U.S. Citizen <input type="checkbox"/> Yes <input type="checkbox"/> No		U.S. Citizen <input type="checkbox"/> Yes <input type="checkbox"/> No
Permanent Resident/Qualified Alien <input type="checkbox"/> Yes <input type="checkbox"/> No		Permanent Resident/Qualified Alien <input type="checkbox"/> Yes <input type="checkbox"/> No
Applicant's Credit Score: _____ <input type="checkbox"/> No Score		Co-Applicant's Credit Score: _____ <input type="checkbox"/> No Score
Lender has validated Credit Score and/or provided non-traditional credit, as applicable? <input type="checkbox"/> Yes <input type="checkbox"/> No		Lender has validated Credit Score and/or provided non-traditional credit, as applicable? <input type="checkbox"/> Yes <input type="checkbox"/> No
Property Information		
Property Address: _____		
City, State, Zip Code: _____		County and Code: _____ ()
_____		Congressional District: _____
Confirm property in eligible rural area		Temporary Disaster Area Designation <input type="checkbox"/> Yes <input type="checkbox"/> No
Eligible Area <input type="checkbox"/> Yes <input type="checkbox"/> No		
Lender Information		Submitting Financial Organization
Approved Lender: _____		Submitting Lender: _____
Lender ID: _____		Submitting Lender ID: _____
Lender Contact: _____		Lender Phone: _____
Lender Email: _____		
Application Processing Steps		Action Steps
Date	Initials of Employee	
		Application package received
		Application package complete
		The lender checked https://www.sam.gov/
		Checked MortgageServ – Customer Cross Reference

Attachment 15-B: Agency Documentation and Processing Checklist (Internal Agency Use)

Deleted: Information already captured in GUS and GLS has been removed from the Agency processing checklist.

Conditional Commitment Request	Written documentation of the following must be submitted when requesting a Conditional Commitment for Loan Note Guarantee. GUS Underwriting Recommendations of "Refer" and "Refer with Caution" or an "Accept" that is subject to full documentation will adhere to "Manual UW" requirements, <u>except as otherwise noted</u> .
File Type: <input type="checkbox"/> Accept <input type="checkbox"/> FD <input type="checkbox"/> Refer <input type="checkbox"/> Manual	<u>Manual Underwriting for GUS Accept (subject to streamlined documentation as provided in Chapter 15). GUS Refer/Refer with Caution Underwriting Recommendation</u> <u>GUS Accept if Lender Quality Control message(s) (fully documented loan file) required of GUS Underwriting Findings and Analysis Report, GUS Refer/Refer with Caution Underwriting Recommendation or Manually Underwritten loans</u>
Lender Request	
<input type="checkbox"/>	Form RD 3555-21, Request for Single Family Housing Loan Guarantee <input type="checkbox"/> Completed and executed by all borrowers and lender <input type="checkbox"/> Interest rate is locked. Lock date: _____ Expiration Date: _____ <input type="checkbox"/> For locked rates, rate confirmed to meet § 3555.104 https://www.fanniemae.com/singlefamily/historical-daily-required-net-yields Date Agency confirmed: _____ Interest Rate: _____ % Max Rate: _____ <input type="checkbox"/> Interest rate is floating. Condition for lock date.
Lender Underwriting	
<input type="checkbox"/>	Underwriting Analysis (FNMA 1008/FHLMC 1077 or similar) <input type="checkbox"/> Confirmed/executed by Underwriter <input type="checkbox"/> Adverse credit waiver and supporting documentation that meets Chapter 10.7 CFR 3555 Handbook? <input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A [Note: A GUS "Accept" subject to a fully documented file does not require the submittal of a credit waiver or supporting documents to the Agency] <input type="checkbox"/> Verification of Rent? <input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A [(applicable to manually underwritten loans with credit scores less than 680.) [Note: A GUS "Accept" subject to a fully documented file does not require a Verification of Rent. <input type="checkbox"/> Ratio waiver request documented by Lender? <input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A [Note: A GUS "Accept" subject to a fully documented file does not require a ratio waiver request or the supporting documents to the Agency] <input type="checkbox"/> Evidence of compensating factors submitted by Lender? <input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A <input type="checkbox"/> Ratio waiver reviewed and granted? <input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A PITI Ratio _____ TD Ratio _____ Funded Buydown? <input type="checkbox"/> Yes <input type="checkbox"/> No Mortgage Credit Certificate? <input type="checkbox"/> Yes <input type="checkbox"/> No
<input type="checkbox"/>	Final GUS Underwriting Findings Report , as applicable

Attachment 15-B: Agency Documentation and Processing Checklist (Internal Agency Use)

NEW: "File Type" request was added to indicate the GUS underwriting recommendation or a manually underwritten loan file.

Lender Credit Documentation	
<input type="checkbox"/>	Uniform Residential Loan Application (URLA – FNMA 1003/FHLMC 65)
	<input type="checkbox"/> Executed by the applicant(s)? <input type="checkbox"/> Yes <input type="checkbox"/> No
	<input type="checkbox"/> Executed by interviewing lender? <input type="checkbox"/> Yes <input type="checkbox"/> No
<input type="checkbox"/>	Credit Report
	<input type="checkbox"/> Tri - Merged <input type="checkbox"/> RMCR <input type="checkbox"/> Non-traditional and all credit supplements <input type="checkbox"/> GUS
	Non-Purchasing Spouse Credit Report: <input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A (If applicant or property in a community property state – AZ, CA, ID, LA, NV, NM, TX, WA, WI) (AK and PR under limited conditions)
	<input type="checkbox"/> Within 120 days of loan closing
<input type="checkbox"/>	Verification of Rent, as applicable
	Note: Applicable to manually underwritten loans with credit scores less than 680. A GUS "Accept" subject to a fully documented file does not require a Verification of Rent.
Lender Credit Documentation, continued	
<input type="checkbox"/>	Income Verification
	<input type="checkbox"/> Within 120 days of loan closing (purchase existing)
	Income from employment: <input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A
	<input type="checkbox"/> Full Documentation: Written VOE; most recent paystub with YTD earnings
	<input type="checkbox"/> Alt. Documentation: Verbal VOE; 30 days earning statements with YTD earnings (original or electronic copies); 2 years W-2's or income tax returns
	Income from other sources (examples not all inclusive): <input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A
	<input type="checkbox"/> Social Security <input type="checkbox"/> Retirement <input type="checkbox"/> Child Support <input type="checkbox"/> Alimony
	<input type="checkbox"/> Commissions <input type="checkbox"/> Interest <input type="checkbox"/> Government Assistance <input type="checkbox"/> Other: _____
	Income from self-employment: <input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A
	<input type="checkbox"/> 2 years tax returns <input type="checkbox"/> Profit/Loss Stmt
	Income from assets: <input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A
	<input type="checkbox"/> Verification of Deposit <input type="checkbox"/> Bank Statements <input type="checkbox"/> Other: _____
	Income from other adult members of the household:
	Documentation of household income from other adult members: <input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A
	Documentation of tax return information as a result of IRS 4506-T, Request for Transcript of Tax Return <input type="checkbox"/> Yes <input type="checkbox"/> No Note: Required for all adult members of the household.
<input type="checkbox"/>	Lender's Income Calculation Worksheet
<input type="checkbox"/>	Agency's Summary of Income Calculation
	# Household Members _____ # Dependents _____
	Maximum Adjusted Household Income for County: \$ _____
	Lender Calculations Agency Calculations
	Annual Household Income \$ _____ Annual Household Income \$ _____
	Adjusted Annual Household Income \$ _____ Adjusted Annual Household Income \$ _____
	Repayment Income (Monthly) \$ _____ Repayment Income (Monthly) \$ _____

Monthly Mortgage Credit Certificate \$ _____	Monthly Mortgage Credit Certificate \$ _____
PITI: \$ _____ Annual Fee: \$ _____ Other Debt: \$ _____ Closing Costs: \$ _____	PITI for GLS: \$ _____ <i>For Manual GLS entry only</i>
Income Category: <input type="checkbox"/> Very-Low <input type="checkbox"/> Low <input type="checkbox"/> Moderate	

Attachment 15-B: Agency Documentation and Processing Checklist (Internal Agency Use)

NEW: Verification of Rent guidance was included, if applicable.

NEW: IRS 4506-T requirement was added for Refer, Refer with Caution, and manually underwritten loan files.

Attachment 15-B: Agency Documentation and Processing Checklist (Internal Agency Use)

Clarification: Complete this section only for loans that require manual GUS entry.

The Rural Development review will consist of the following actions when a lender requests a Conditional Commitment for Loan Note Guarantee.	
<input type="checkbox"/>	Form RD 1922-15, Administrative Appraisal Review for Single Family Housing <input type="checkbox"/> N/A [not applicable to streamlined refinance – no appraisal required] Completed by Loan Approval Official.
<input type="checkbox"/>	Form RD 1940-22, Environmental Checklist for Categorical Exclusions <input type="checkbox"/> N/A [Typically N/A for refinance transactions] Completed by Loan Approval official prior to Conditional Commitment when eligible for categorical exclusion.
<input type="checkbox"/>	Form RD 1940-21, Environmental Assessment for Class I Action, as applicable. <input type="checkbox"/> N/A [Typically N/A for refinance transactions] Completed by Loan Approval official when ineligible for categorical exclusion. Examples (not inclusive) of protected resources requiring preparation of Form RD 1940-21: <input type="checkbox"/> floodplains <input type="checkbox"/> coastal barriers <input type="checkbox"/> historic properties <input type="checkbox"/> wilderness <input type="checkbox"/> wetlands <input type="checkbox"/> Coastal Zone Management
<input type="checkbox"/>	Rural Development Decision – Approved, Denied, Withdrawn <input type="checkbox"/> Approved - Prepare Form RD 3555-18/18E Date of Form RD 3555-18/18E, Conditional Commitment for Loan Note Guarantee: _____ <input type="checkbox"/> Notified Lender by: <input type="checkbox"/> E-Mail or <input type="checkbox"/> through <input type="checkbox"/> Electronic Workflow, as applicable <input type="checkbox"/> Approved application uploaded from GUS or GLS populated manually <input type="checkbox"/> Denied - Prepare denial letter with applicable appeal rights. Date of letter with applicable appeal rights: _____ <input type="checkbox"/> Approved application uploaded from GUS or GLS populated manually <input type="checkbox"/> Withdrawn – Lender requested Conditional Commitment for Loan Guarantee is withdrawn. Date withdrawal occurred: _____ <input type="checkbox"/> Approved application uploaded from GUS or GLS populated manually RHS Approval/Denial Official: _____
GUS/GLS Processing Steps by Rural Development	
The following steps must occur to update the data warehouse. The steps apply to approved, denied or withdrawn applications.	
<input type="checkbox"/>	Complete the Borrower Maintenance page in GLS Note: If the loan was a final submission underwritten with the assistance of GUS, the Borrower Maintenance Screen will be automatically completed unless the borrower is already established in GLS. Establish the borrower(s) in GLS. Complete for each borrower.
<input type="checkbox"/>	Complete the Add Application page in GLS. <input type="checkbox"/> GUS Loans: Complete the USDA Administration page. Save the page. Submit the application to GLS. <input type="checkbox"/> Non-GUS Loans: Complete the Add Application page in GLS. Note: The CAIVRS service will automatically populate each borrower's CAIVRS confirmation #.
<input type="checkbox"/>	Complete the Obligation Request page in GLS Date of Obligation in GLS: _____ (GLS 1A obligation transaction processed)
The following documentation must be received and steps completed to issue a Loan Note Guarantee.	
<input type="checkbox"/>	Form RD 1980-19, Guaranteed Loan Closing Report Note: This form is not required for lenders utilizing the Automated Lender Loan Closing system Date Loan Note Guarantee request received: _____ Date of Loan Closing: _____ <input type="checkbox"/> Completed and executed by lender Loan closed for amount of commitment: <input type="checkbox"/> Yes <input type="checkbox"/> No

Attachment 15-B: Agency Documentation and Processing Checklist (Internal Agency Use)

NEW: “Rural Development Decision” has been revised to include “Approved,” “Denied,” and “Withdrawn.” Additional data fields have been added to aid in documenting the Agency’s decision and actions.

	Loan closed for interest rate on commitment: <input type="checkbox"/> Yes <input type="checkbox"/> No If No, determine if rate was floating at issuance of commitment. Obtain documentation of lock date and confirm rate meets §3555.104. <u>Loans closing at a higher rate than the rate provided on Form RD 3555-18/18E will require additional information.</u>
<input type="checkbox"/>	Lender Certification – Continuing pages of Form RD 3555-18/18E <u>Note: This form is not required for lenders utilizing the Automated Loan Closing system</u>
	<input type="checkbox"/> Completed and executed by lender after closing.
<input type="checkbox"/>	Documentation of Conditions <input type="checkbox"/> Documentation of date interest rate locked (if floating), as applicable <input type="checkbox"/> Confirmation of escrow development completion, as applicable Note: Loan Note Guarantee may be issued if escrow established in accordance with §3555.202. Documentation other conditions are met <input type="checkbox"/> Yes <input type="checkbox"/> No
<input type="checkbox"/>	Promissory Note , copy or uploaded as an individual document for Automated Lender Loan Closing system: <input type="checkbox"/> Yes <input type="checkbox"/> No
<input type="checkbox"/>	HUD-1 Settlement Statement , copy of final or uploaded as an individual document for Automated Lender Loan Closing system: <input type="checkbox"/> Yes <input type="checkbox"/> No
	Confirm all credit documentation is within acceptable time frames. <input type="checkbox"/> Yes <input type="checkbox"/> No
<input type="checkbox"/>	Issue Form RD 3555-17, Loan Note Guarantee Date Loan Note Guarantee Issued: _____ Note: Upload document through GLS Data-Filled forms page for lenders utilizing Automated Lender Loan Closing system. Approval Official Issuing LNG: _____
	<input type="checkbox"/> Notified Lender by: <input type="checkbox"/> E-Mail <input type="checkbox"/> Work-flow notification of Lender Loan Closing (LLC)
Wholesale Lockbox Procedures (WLB) by Rural Development	The following collection steps are required to process guarantee fees <u>when paper checks in lieu of a PAD is received</u> . Collections must be secured in a fire-proof locked safe. Collections greater than \$100 must be processed daily.
<input type="checkbox"/>	Form RD 451-2, Schedule of Remittances <u>Note: This form is not required for lenders utilizing the Automated Lender Loan Closing system.</u> Online fill-able form available.
	Guarantee Fee Collected: \$ _____
	Guarantee Fee on commitment: \$ _____
	Fee must be within \$10.00 to process Loan Note Guarantee request for those LNG requests submitted without assistance of Automated Loan Closing system. To process a fee that differs by \$10.00 or less, over type the defaulted fee on <i>GLS Add Loan Closing</i> page.
<input type="checkbox"/>	Form RD 1951-49, Register of Collections <u>Note: This form is not required for lenders utilizing the Automated Lender Loan Closing system.</u> Online fill-able form available.
<input type="checkbox"/>	Form RD 1951-60, Field Office Remittance Reconciliation Report <u>Note: This form is not required for lenders utilizing the Automated Lender Loan Closing system.</u> Online fill-able form available.
<input type="checkbox"/>	Submit collection(s) to the WLB <u>Note: This form is not required for lenders utilizing the Automated Lender Loan Closing system.</u> Checks must be made payable to USDA or Rural Development.
	Mail WLB collections to: USDA – Rural Development Wholesale Lockbox P.O. Box 790391 St. Louis, Missouri 63179-0391

Attachment 15-B: Agency Documentation and Processing Checklist (Internal Agency Use)

Clarification: Floating interest rates that exceed the note rate on the commitment will require additional information.

GLS Loan Closing Transaction	The following steps are required to process and close the loan in the data warehouse once the Loan Note Guarantee is issued.
<input type="checkbox"/>	Complete the Add Loan Closing page in GLS. Note: Lenders utilizing the Automated Lender Loan Closing system will partially complete the page. The Agency will confirm information and documentation prior to final submittal to GLS.
	1) If the interest rate changes from commitment, the interest rate established in GLS may be changed by over-typing the field for manually underwritten files. Lender must establish continued eligibility. Files who utilize GUS must be resubmitted to GUS if adversely affected. 2) Ensure the interest rate on the Add Loan Closing screen is updated and is accurately represented. The interest rate must mirror that of the note to obtain a correct annual fee schedule. 3) Process changes to the loan amount PRIOR to submitting the Add Loan Closing page. Lenders who utilize the Automated Lender Loan Closing (LLC) can complete a partial de-obligation of loan funds prior to submitting the request for LING. 4) For PAD transactions (lenders who submit fees via pay.gov) – do not alter or attempt to modify the guarantee fee in GLS. 5) For non-PAD transactions (check received) – the guarantee fee can be modified to accommodate the amount of fee actually paid. This amount must be within \$10.00 of the default fee in GLS.
Rural Development Imaging Repository	This document will become part of the permanent Rural Development file as a retained essential document in accordance with Chapter 2 of the HB-3555.

File Running Record

Common Conditions to Conditional Commitment Checklist:

<input type="checkbox"/> Floating Interest Rate	<input type="checkbox"/> HUD Guidelines	<input type="checkbox"/> Flood Insurance 100yr Zone
<input type="checkbox"/> Final Signed Loan Application	<input type="checkbox"/> Escrow	<input type="checkbox"/> New Manufactured Home
<input type="checkbox"/> New Construction	<input type="checkbox"/> Repairs	<input type="checkbox"/> Shared Driveway/Private Street
<input type="checkbox"/> Septic	<input type="checkbox"/> Streamline Refinance	<input type="checkbox"/> Mortgage Credit Certificate (MCC)
<input type="checkbox"/> Well	<input type="checkbox"/> New or Existing Condo	

Full Documentation File or Other Comments

Attachment 15-B: Agency Documentation and Processing Checklist (Internal Agency Use)

Clarification: USDA Imaging guidelines are in HB-1-3555 Chapter 2.

Chapter 16: Closing the Loan And Requesting the Guarantee

16.2 CLOSING THE LOAN

The lender has 90 days from the issuance of *Form RD 3555-18/18E* to close the loan. If construction is involved, the requested expiration date of *Form RD 3555-18/18E* will correspond with the projected completion of construction (i.e. Florida may have a new construction period of six months, so the expiration of the commitment issued would coincide with the construction period). Prior to expiration, of the conditional commitment, the lender may request the Agency extend the conditional commitment for one additional 90-day period if the lender has been unable to close the loan due to circumstances beyond their control. New construction is limited to an expiration date, including any extension granted, to no greater than 12 months from the issuance of the commitment as provided in Chapter 15 of this Handbook. Examples of valid reasons for 90-day extensions might include construction delays due to weather conditions, repairs to the home, or an inability to obtain construction materials resulting in work postponement. The Agency must grant any approved extension in writing, either through a letter or a fax that includes a signature of an approval approvingal official. Extensions of the term of the Conditional Commitment must be maintained in the lender's case file. The GLS application page will be updated with the commitment extension.

16.2: Closing the Loan

NEW: "18E" is added to Form RD 3555-18 to indicate the form was issued electronically.

NEW: New construction commitments should not exceed 12 months, however 90 day extensions are provided for flexibility.

A Power of Attorney may be utilized for closing documents. Any specific or general power of attorney must comply with state law, and allow for legal enforcement of the mortgage note in jurisdiction. The initial loan application may not be executed by a power of attorney except for military personnel on ~~oversees overseas duty assignment~~ or on an unaccompanied tour, and ~~an incapacitated disabled incapacitated~~ borrower(s) unable to sign the mortgage application. For service personnel, the lender should obtain the service person's signature on the application by mail or fax ~~machine~~. When a borrower is ~~incapacitated disabled incapacitated~~, and unable to execute the application, the lender must provide evidence that the signer has authority to purchase the property and to obligate the borrower.

Lender Certification. The lender must sign *Form RD 3555-18/18E* or will be subject to electronic certification-when using the Agency's automated method of loan closing, to certify that no major changes have taken place that would affect eligibility for the loan guarantee, except those approved by the Agency in writing, and that all conditions specified on *Form RD 3555-18/18E* have been met. Whether a lender certifies by executing Form RD 3555-18/18E or submits the request electronically, the lender certifies to the following:

- No major changes have occurred since the issuance of the Conditional Commitment for Single Family Housing Loan Guarantee that affect the subject loan request, except any that have been approved by the Agency in writing.
- The loan closed in accordance with the amount (equal to or less than) and conditions set forth in Form RD 3555-18/18E. The lender will be subject to additional criteria if the loan is closed for an excessive loan amount. An excessive loan amount occurs when the lender closes a loan in an amount higher than permitted by Form RD 3555-18/18E. To obtain a Loan Note Guarantee, the lender may choose to reclose the loan to the guarantee amount as reflected on the Form RD 3555-18/18E, or request a revised Form RD 3555-18/18E. A revised Form RD 3555-18/18E is subject to continued eligibility as set forth in 7 CFR part 3555 and the availability of funding.
 - If the interest rate was not fixed at the time the Conditional Commitment for Single Family Housing Loan Guarantee was issued, and the interest rate increased between issuance of the Conditional Commitment for Single Family Housing Loan Guarantee and loan closing, the change is noted and documentation of the fixed rate, at lock, is submitted.
 - If either or both of the underwriting ratios are exceeded, as a result of an interest rate increase, compensating factors that demonstrate sufficient repayment continues to exist, is required. Documentation supporting the increase must be included in the Loan Note Guarantee request.
 - No default exists.

16.2: Closing the Loan

Clarification: Minor changes are provided regarding acceptable Power of Attorney for military personnel and incapacitated borrowers.

16.2: Closing the Loan

NEW: "18E" is added to Form RD 3555-18 to indicate the form was issued electronically.

NEW: The lender certification is broken down for clarification.

16.2: Closing the Loan

NEW: The lender certification is broken down for clarification.

- The lender has not imposed any charges or fees against the borrower in excess of those permissible as set forth in 7 CFR part 3555.
- The information submitted to the Agency is true, accurate and complete.
- The information obtained in the loan application was obtained directly from the borrower by an employee of the undersigned lender or the lender's duly authorized agent and is true to the best of the lender's knowledge and belief.
- The credit report submitted on the subject borrower (and co-borrowers(s), if any) was obtained by the undersigned lender or the lender's duly authorized agent directly from the credit bureau which prepared the report and was received directly from said credit bureau. The lender represents credit documentation has been re-verified since issuance of the Conditional Commitment, if the verification at closing was in excess of 120 days of the loan closing. Updated documentation is retained in the lender's permanent loan file.
- The verification(s) of employment and verification(s) of deposits, if applicable were requested and received by the lender or the lender's duly authorized agent without passing through the hands of any third persons and are true to the best of the lender's knowledge and belief. The lender represents employment and/or asset documentation has been re-verified since issuance of the Conditional Commitment, if the verification at closing was in excess of 120 days of loan closing. Updated documentation is retained in the lender's permanent loan file.
- The loan to the named borrower(s) meets the income and credit requirements of 7 CFR part 3555 and other applicable regulations concerning guaranty of loans.
- The loan conforms to the applicable provisions of 7 CFR part 3555.

16.2: Closing the Loan

NEW: The lender certification is broken down for clarification.

- All planned property acquisition (construction, repairs, alterations or improvements) has been completed upon which the market value of the property is predicated unless:

- An escrow account has been established in accordance with 7 CFR 3555.202(c) and Chapter 12 of the Single Family Housing Guaranteed Loan Program Handbook (HB-1-3555).
- Lender confirms development/repair work for which an escrow account was established has been: ☐ completed or ☐ will be completed within 180 days of loan closing. If incomplete, the lender agrees to confirm development/repairs are complete in writing or presentation of the final inspection to Rural Development. Note: Confirmation development/repair work is finished is not required for issuance of a Loan Note Guarantee, but is required upon completion of the work. Remaining escrow funds that represent loan funds must be applied to the principal loan amount.

- The required hazard insurance coverage is in effect. Flood insurance has been obtained, as applicable, if the structure is located in 100 year special flood hazard area.
- All Truth-in-Lending requirements have been met.
- All equal employment opportunity and nondiscrimination requirements have been met.
- The loan has been properly closed and the required security instruments, including recapture of subsidy (as applicable) has been obtained.
- The borrower(s) have marketable title to the collateral now owned by the borrower subject to the instrument securing the loan to be guaranteed and any other exceptions approved in writing by the Agency.
- Lien priorities are consistent with the requirements of the Conditional Commitment for Single Family Housing Loan Guarantee. The security instrument has been recorded and is a good and valid first lien on the property described.
- The loan proceeds have been disbursed for purposes and in amounts consistent with the Conditional Commitment for Single Family Housing Loan Guarantee.
- There has been no adverse change in the borrower's financial condition or any other adverse change in the borrower's situation since the Conditional Commitment for Single Family Housing Loan Guarantee was issued by the Agency.
- All inspections in accordance with 7 CFR §§ 3555.201 and 3555.202 and Chapter 12 of HB-1-3555 have been obtained. Evidence of inspections has been retained in the lender's permanent loan file.
- All other requirements listed in the Conditional Commitment for Single Family Housing Loan Guarantee have been met.

- Copies of the credit and security instruments submitted herewith are true and exact copies as executed and filed for record.
- If the sale of the note or transfer of servicing occurs subsequent to this certification, the lender agrees to notify Rural Development in accordance with 7 CFR § 3555.54.

16.2: Closing the Loan

NEW: The lender certification is broken down for clarification.

16.2: Closing the Loan

NEW: The lender certification is broken down for clarification.

16.2: Closing the Loan

NEW: The lender certification is broken down for clarification.

B. Acceptable Closing Documents

If all of the closing documents are acceptable, the Agency will issue the loan note guarantee within 15 calendar days of receipt of the closing package. For those closings submitted without benefit of the Agency's electronic loan closing process, the Agency staff will prepare *Form RD 451-2, "Schedule of Remittances"* to transmit the guarantee fee to the Deputy Chief Financial Officer via the "Lock Box." Lenders who utilize the electronic method of loan closing will submit their guarantee fee electronically through a pre-authorized debit. In all cases, the Loan Note Guarantee should be issued electronically by the Agency. Agency employees have been provided with instructions on closing the loan. Users should follow the Manual Submission guidance in Quick Steps to Close GRH Loans Using Electronic Customer File document located in the Agency's SharePoint website. The Agency will execute Form RD 3555-17, "Loan Note Guarantee," which is the official loan guarantee document. A system generated *Form RD 3555-17E; "Loan Note Guarantee"* will be issued to lenders, which is the official loan guarantee document, who request guarantees through the automated loan closing method. Agency staff will enter the information into the Guaranteed Loan System when the closed loan meets the conditions set forth in the conditional commitment. The loan note guarantee does not take effect until *Form RD 3555-17 (or Form RD 3555-17E)* is executed or issued by the system generated method. The Agency will send *Form RD 3555-17 (or Form RD 3555-17E)* and the "Loan Amortization Schedule," which outlines any annual fees due on the loan, to the lender for attachment to the promissory note. For those transactions submitted without benefit of the Agency's electronic loan closing, the Agency will transmit the executed *Form RD 3555-17* and the "Loan Amortization Schedule" electronically as instructed earlier in this Section. The Agency retains a copy for the Agency's imaging repository. For those lenders utilizing the electronic loan closing, the Agency workflow action will notify the lender to retrieve *Form RD 3555-17E* and the "Loan Amortization Schedule" upon completing a review of closing documents.

2. Flood Insurance

If a dwelling is located in a Special Flood Hazard Area (SFHA,) as identified by the FEMA, the community must be located within a National Flood Insurance Program (NFIP) participating community and the borrower must obtain flood insurance. The lender must ensure the borrower continuously maintains flood insurance for the life of the loan and that the policy is in force at the time of loan closing. Flood insurance must cover the lesser of the outstanding principal balance of the loan(s) or the maximum amount of coverage allowed under NFIP. Unless a higher amount is required by state or federal law, the maximum deductible clause for a flood insurance policy should not exceed the greater of \$1,000 or 1 percent of the face amount of the policy. Existing dwellings for the SFHGLP are eligible if flood insurance is available. Existing properties are not subject to the Agency's requirements within RD Instruction 1940-G Exhibit C. Additional requirements, in accordance with Chapter 12 of this Handbook may be required when a property is not served by a public sewer system. See Section 12.10B of Chapter 12 for additional information.

16.6: Agency Review of Closing Documents and Issuance of the Guarantee

B. Acceptable Closing Documents

NEW: Loan Note Guarantees should be issued electronically by USDA.

16.11: Ownership Requirements
C. Insurance Policy Requirements
2. Flood Insurance

NEW: Guidance is included in reference to flood insurance requirements and safe water precautions when properties are located in a SFHA.

File Stacking Order Checklist Post Loan Closing – Issuance of Loan Note Guarantee	
Please stack the loan closing package in the following document order: Form RD 1980-19, "Loan Closing Report"	
	Note: This form is not required if Lender is participating in automated lender loan closing. The date of closing is defined as the settlement date as it appears on the HUD-1 Settlement Statement, Block I.
	Guarantee Fee – Payable to USDA or Rural Development – Include a copy of Page 1 - Form RD 3555-18/18E Note: Lenders participating in automated lender loan closing will utilize pay.gov to submit the guarantee fee. If not an automated lender loan closing lender, when submitting electronically, submit the paper check to the physical location noted on the "Identification of Electronic Delivery" at https://usdalinc.sc.gov.usda.gov/USDAIncTrainingResourceLib.do with a copy of Form RD 1980-19, "Loan Closing Report".
	Form RD 3555-18/18E, Lender Certification Lender is certifying all conditions listed or appearing on the commitment and/or GUS Underwriting and Findings Report for this applicant have been fulfilled, the security instrument has been recorded and is a good and valid first lien on the property described. Note: Lenders participating in automated lender loan closing are not subject to submittal of this certification. For those lenders submitting manually, complete form and execute. Identify servicer and investor, if known. Include all Attachments to Form RD 1980-18. Inspections, plans, warranties are retained in the lender's permanent file.
	Promissory Note, copy with appropriate riders, if any Note: The loan amount of the Promissory Note must be equal to or less than the amount identified on Form RD 3555-18. The interest rate must be equal to or less than the rate identified on Form RD 3555-18. Note: Any change of interest rate of loan amount after issuance of Form RD 3555-18/18E must be approved by RD prior to loan closing.
	Final HUD-1 Settlement Statement, copy of final The submitted form does not require signature.
	Additional Conditions, as noted on Form RD 3555-18/18E, or supplemented by Attachment Submit documentation of required conditions, as applicable. Those conditions indicating the lender should "Retain in Lender's Permanent File" should not be included in post-closing documents.

Attachment 16-A: Loan Closing Stacking Order Checklist

NEW: "18E" is added to Form RD 3555-18 to indicate the form was issued electronically.

Chapter 17: Regular Servicing-Performing Loans

- Insurance claims for structural damage may be paid directly to the homeowner to advance funds to contractors, provided all of the following conditions are met:
 - The mortgage is current.
 - The borrower's payment history does not show delinquencies of two payments or more.
 - The property is occupied by the borrower(s).
 - The released funds may not exceed \$105,000.00.
 - The borrower(s) must execute an affidavit in which the borrower(s) expressly agree to apply the released funds promptly to repair or reconstruct the residence.

Lenders must submit monthly default reports and quarterly status reports indicating the status of loans they are servicing. The reports are submitted via Electronic Data Interchange (EDI) to the [Office of the Deputy Chief Financial Officer National Finance and Accounting Operations Center \(DCFO-NFAOC\)](#). New servicing lenders will enter into an agreement to electronically report the status and default status of SFHGLP portfolio serviced. Lenders seeking information regarding electronic status reporting may obtain, view or print a guide "Electronic Data Interchange Implementation Guide" and the corresponding "Trading Partner Agreement" at: <https://usdalinc.sc.gov.usda.gov/USDAIncTrainingResourceLib.do>. Scroll to "Electronic Status Reporting."

If a lender is unable to sell a loan and/or retains the loan for servicing, contact the [DCFO-NFAOC](#) at RD.DCFO.GLB@stl.usda.gov to initiate the process for default and status reporting in addition to payment of annual fees. Failure to record timely defaults or status reports is a violation of a lender's participation agreement and could result in a reduced or denied loss claim payment.

Section 1: Servicing Performing Loans 17.2: Required Servicing Actions E. Maintaining Hazard Insurance and when applicable, Flood Insurance

NEW: Released insurance funds to the borrower may not exceed \$15,000.

Section 1: Servicing Performing Loans 17.3: Reporting Requirements

Clarified: DCFO references have been changed to reflect the new title: National Finance and Accounting Operations Center (NFAOC).

2. *Net Proceeds*

~~The net cash proceeds must be used to reduce the principal balance of the outstanding debt, except when the loan-to-value after the release is 90 percent or less. The borrower may retain a part of the proceeds if the funds will be used to pay customary and reasonable expenses of obtaining the release will be used for property improvements, or represent an amount greater than the reduction in value of the property. If the funds are to be used for property improvements, the lender should release the funds as the improvements are completed. The lender must ensure that the proceeds are used as planned. The net cash proceeds must be used to reduce the principal balance of the outstanding debt or be used to improve the property. Unless the outstanding debt is paid in full the borrower should receive no cash from the transaction. All net proceeds should be applied in the following order:~~

- ~~1. To pay customary and reasonable cost related to the transaction owed by the borrower.~~
- ~~2. To be applied on a prior lien debt, if any.~~
- ~~3. To be applied to the outstanding balance or used for improvements to the security property. If the funds are to be used for property improvements, the lender should release the funds as the improvements are completed. The lender must ensure that the proceeds are used as planned. Any funds remaining after the improvements are completed must be applied as a principal curtailment.~~

B. Lender Delegation

USDA approval is not required for the voluntary or involuntary release of the security provided that all of the following conditions are met:

- ~~• The portion of the property being conveyed does not exceed 10% of the area of the mortgaged property~~
- ~~• There is no damage to existing structures or other improvements~~
- ~~• There is no unrepaired damage to sewer, water, or paving~~
- ~~• All of the payment received as compensation for the taking of the property is applied to reduce the unpaid principal balance of the mortgage, and~~
- ~~• The conveyance occurs after the mortgage loan was guaranteed.~~

B.C. Processing a Partial Release - Lender

To process a partial release under the delegation authority described above, the lender must complete and/or document the following actions. If the lender eventually files a loss claim, the claim must be accompanied by the lenders certification that all requirements have been met.

~~To process a partial release, the lender must complete the following actions. If the lender is nationally approved, the request will be sent to the National Office. State approved lenders will send requests to the state contact in which the property is located. National and state contact information may be found in Appendix 4 of this Handbook.~~

Section 2: Borrower Actions Requiring Lender or Agency Approval

17.7: Partial Release of Security

A. Conditions for Partial Release

2. Net Proceeds

Deleted: The ability to release net cash proceeds to the borrower when the LTV post release will be 90 percent or less is removed.

NEW: Net cash proceeds from a partial release of property must be applied in the order presented.

Section 2: Borrower Actions Requiring Lender or Agency Approval

17.7: Partial Release of Security

B. Lender Delegation

NEW: Lenders are delegated to approve partial releases when the required conditions are met.

Section 2: Borrower Actions Requiring Lender or Agency Approval

17.7: Partial Release of Security

C. Processing a Partial Release-Lender

NEW: Guidance is provided for lenders to process a partial release.

C.D. Processing a Partial Release - Agency

If Agency approval is required and the lender is nationally approved, the request will be sent to the National Office. State approved lenders will send requests to the state contact in which the property is located. In such cases the lender should send evidence of all completed actions to the agency for review. National and state contact information may be found in Appendix 4 of this Handbook.

The approval official will analyze the lender's request for partial release and consider the following

- Estimate of value prior to the proposed release;
- Estimate of value after the proposed release;
- Loss in value attributed to the proposed release;
- The use or purpose(s) to which the released property would be put to;
- The estimated cost of proposed improvements to the remaining property;
- The estimated value of the remaining property after any proposed improvements are completed;
- Consideration if the remaining mortgage security is less marketable as a result of the release.

A decision on a case-by-case basis will be made if a reduction to the principal mortgage balance is required as a condition to approval of the partial release request. If the loan-to-value ratio after release is 90 percent or less, a reduction to the principal mortgage balance may not be necessary.

Notification of approval/denial will be communicated to the lender. Any denial must state the reason(s) for denial in detail.

Section 2: Borrower Actions Requiring Lender or Agency Approval

17.7: Partial Release of Security

D. Processing a Partial Release-Agency

NEW: Guidance is provided for Agency staff when USDA must approve the partial release.

Deleted: The ability to release net cash proceeds to the borrower when the LTV post release is 90 percent or less is removed.

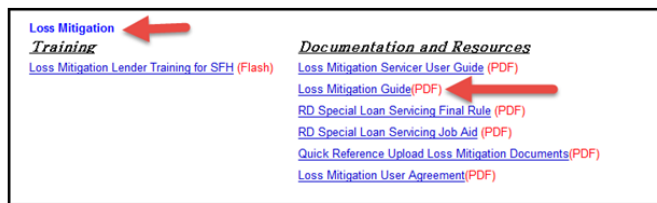
Chapter 18: Servicing Non-Performing Loans – Accounts with Repayment Problems

18.5 LOSS MITIGATION OPTIONS

The lender should make every possible effort to assist borrowers who are experiencing financial hardship and are willing to cooperate in resolving a default situation. Loss mitigation must be used, where appropriate, to reduce losses to the government and assist the borrower in retaining homeownership. Possible methods for bringing an account current include an informal payment agreement, special forbearance agreement or loan modification. Special forbearance agreements and loan modifications should be used when information in the servicing file supports the borrower's ability and willingness to pay. Voluntary liquidation methods such as pre-foreclosure sales and offering a deed-in-lieu of foreclosure may used to protect the Government's interest once the lender has exhausted other servicing options.

Traditional/standard loss mitigation options must be exhausted prior to use of Special Loan Servicing Options. Consideration must be given to both options prior to initiation of liquidation.

The Agency's *Loss Mitigation Guide* was developed to assist lenders with the loss mitigation process and options available to borrowers. See Attachment 18-A for the *Loss Mitigation Guide*. Lenders may also view the guideguide online at: <https://usdalinc.sc.gov.usda.gov/USDALincTrainingResourceLib.do>. Scroll the page to "Loss Mitigation."



A critical item in any of these options is knowledge of the borrower's financial condition and an accurate determination of the borrower's ability to repay any arrearage and to continue making mortgage payments timely. Refer to the *Loss Mitigation Guide* in Attachment 18-A for guidance regarding the following:

- Servicing Early Delinquent Loans;
- Informal Repayment Agreement;
- Loss mitigation overview;
- General policies, procedures and minimum actions that constitute effective loss mitigation techniques;
- Special Forbearance;
- Traditional Loan Modification;
- Special Loan Servicing Options;
- Pre-Foreclosure Sale; and
- Deed-in-Lieu of Foreclosure;
- Servicing plan, checklists; disposition cost benefit analysis
- Reporting – EDI and status of mortgage codes

Section 2: Loss Mitigation

18.5: Loss Mitigation Options

Clarification: Prior to liquidation all traditional and Special Loan Servicing options must be exhausted.

NEW: Attachment 18-A "Loss Mitigation Guide" has been added to HB-1-3555 and online at USDA LINC.

Section 2: Loss Mitigation

18.5: Loss Mitigation Options

NEW: Additional items located in Attachment 18-A are added to the bulleted list.

Without prior concurrence of the Agency, a lender should enter a foreclosure sale bid at 80 percent of the market value of the security. ~~bid the percentage of fair market value outlined on the attached USDA Individual State Based Bidding Chart at Attachment 18-D of this Chapter.~~ The fair market value upon which the bid is calculated must be based on a current appraisal of the property, in "as is" condition, with a 90-120 day marketing time frame. If the interior of the security property is not accessible, the valuation will be based on exterior inspection only. ~~The reductions intended to reflect potential REO costs, including accrued interest on the unpaid principal balance, which are typically a minimum of 15 percent of the fair market value of the property.~~

Lenders are responsible for ensuring that the value determination that forms the basis for the bid provides a sound estimate of the market value of the property at the time of the foreclosure sale. If a significant (20 percent or more) decline from the value established when the loan was made and the pre-foreclosure valuation is evident, the lender is encouraged to review the value determination in accordance with established quality controls and be prepared to support the validity of and value, if called upon by the Agency to do so.

~~The use of auction companies is permitted and encouraged for the foreclosure bidding process. For successful third party foreclosure sales whereby an auction company was utilized, the Agency will reimburse lenders for independent third party service fees (e.g. auction service fees) they incur for an amount that does not exceed five percent (5%) of the property net sales price. In order for Auction expenses to be eligible for reimbursement on a claim, properties must be marketed for a minimum of 15 days prior to the scheduled sale and sold for an amount equal to or greater than the "Net Value Bid". Mortgage servicers must ensure they employ a non-affiliated auction servicer to market properties.~~

18.11 SPECIAL RELIEF MEASURES [7 CFR 3555.307(c)]

~~The servicer must suspend any and all foreclosure actions for affected borrowers once a disaster is declared. This applies to both the initiation of new foreclosures as well as foreclosures already in process. Collection, initiation of foreclosure, suspension of foreclosure and eviction proceedings may be suspended, at the servicer's discretion for national disaster areas identified by FEMA. Any suspension would be is effective as of the date the President declares a national disaster, and expires ninety (90) days from the date declared unless extended by the Agency.~~

To be eligible for a suspension of ~~collection and~~ foreclosure activities, the property ~~or the borrower's place of employment~~ must be directly affected by the disaster. ~~During the suspension, servicers should consider the following factors in order to determine the appropriate course of action. Relevant factors to consider in determining whether to suspend collection, foreclosure or eviction activity:~~

Section 3: Acceleration and Foreclosure 18.7: The Foreclosure Process B. The Foreclosure Sale

NEW: Without the concurrence of the Agency lenders may bid the percentage outlined per State in Attachment 18-D.

Deleted: Guidance regarding reductions for REO costs, etc. has been removed.

NEW: Auction companies are permitted and encouraged to liquidate a property. USDA will reimburse lenders for these third party fees when the guidelines are met: no more than 5% fees of net sale price, marketed for 15 days, sold equal to or greater than net value bid, and non-affiliated auction services are utilized.

Section 4: Assistance in Natural Disasters 18.11: Special Relief Measures

NEW: Servicers must suspend current and pending foreclosure actions in disaster areas.

Deleted: Suspension of foreclosure activities in disaster areas at the servicer's discretion is removed.

NEW: Suspension of foreclosure activities will occur for the property or borrower's place of employment affected by the disaster.

In addition to existing workout options, borrowers may be offered rate and term modifications without the standard financial evaluation required subject to the following conditions:

- The loan was current or less than thirty (30) days past due as of the date of the applicable Disaster Declaration
- The Servicer performs a Verification of Employment (VOE) to determine the borrowers employment status remains unchanged as of the disaster
- Home damages have been repaired and the borrower is occupying the subject property.
- Total modified mortgage payment including taxes and insurance (PITI) is less than or equal to the payment prior to modification
- Borrower successfully completes a three month trial period

The loan should be modified as follows:

- Accumulated arrearages of delinquent interest and eligible unreimbursed servicer advances, fees and costs shall be capitalized into the modified mortgage balance.
- The following steps should be completed to an extent that the target monthly modified payment is achieved.
 - Extend term up to 360 months
 - Reduce rate down to no less than 50 basis points greater than the most recent Freddie Mac Weekly Primary Mortgage Market Survey (PMMS) Rate for 30-year fixed-rate conforming mortgages (US Average), rounded to the nearest one-eighth or one percentage (0.125%), as of the date a trial payment plan is offered to the borrower.

HB-1-3555*
Attachment 18-A
Page 1 of 42

ATTACHMENT 18-A LOSS MITIGATION GUIDE

The following is a guide prepared for lenders of general policies, procedures and minimum actions that constitute loss mitigation techniques. It includes an example of a servicing plan, checklists and Disposition Cost Benefit Analysis. Lenders will utilize the policy within this guide to request and/or process (if the delegated the authority by the Agency) loss mitigation actions to assist the borrower in retaining their home and avoiding foreclosure.

This guide may also be accessed electronically online at <https://usdalinc.sc.egov.usda.gov/USDALincTrainingResourceLib.do>. Scroll the page to "Loss Mitigation."

Section 4: Assistance in Natural Disasters

18.11: Special Relief Measures

NEW: Guidance for a disaster relief loan modification is included.

Attachment 18-A: Loss Mitigation Guide

NEW: The link to the Loss Mitigation Guide is added as Attachment 18-A. The full Loss Mitigation Guide is published online on USDA LINC.

Overview of Loss Mitigation Guide Revisions

Other Eligibility Factors	<p>The following general eligibility restrictions apply in all cases:</p> <ul style="list-style-type: none"> A borrower who has a pending/active chapter 13 bankruptcy may be considered for loss mitigation options; however, the servicer must fully document the borrowers pending plan with items such as but not limited to a copy of the proposed/ confirmed trustee plan. In addition the servicer must obtain trustee approval prior to loss mitigation plan execution If a servicing agreement, investor guidelines or applicable law restricts or prohibits compliance with any steps outlined in this guide, the servicer must maintain evidence in the loan file documenting the nature of any deviation from the provided guidance.
Income Verification	<p>Servicers shall document their process in determining each borrower's income scenario. When verifying income of a borrower servicers should use good business judgment consistent with how they evaluate borrowers when modifying loans held in their own portfolio but at a minimum provide the following:</p> <p>Wage or Salary income: Paystubs not more than 90 days old at time of submission to servicer, that covers at least 30 days of earned income. Borrowers most recent W-2 or executed tax returns</p> <p>Self-Employment Income: Most recent quarterly or YTD profit and loss statement along with a copy of the most recent executed Tax Return. Audited financial statements are not required</p> <p>Other/ Benefit Income Bonus, commission, tips, overtime, etc. income must be documented with reliable third party evidence that such income is consistent and likely to continue.</p> <p>Benefit income including but not limited to social security, disability, public assistance and Supplemental Nutrition Assistance Program (SNAP) benefits can be considered income for the purpose of loss mitigation. Benefit income must be documented through award letter, exhibits, or benefits statements from the provider or evidence of receipt to the borrower.</p> <p>Non- Taxable Income The servicer, at its discretion, may "gross up" income not subject to Federal Taxes. When grossing up any income the servicer must document and support the amount of grossed up income and should use the same tax rate for grossing up that the borrower used to calculate his/her tax from the previous year.</p>
Non-Borrower Income	<p>Income from a non-borrower who also occupies the property may be used to support payments under all loss mitigation options with the following restrictions:</p> <ul style="list-style-type: none"> Occupancy must be fully verified Servicer should conduct a financial review of the entire household income and expenses to determine if there is sufficient surplus income to pay back the arrearages Servicers should consult their legal counsel to determine if the asset is eligible for loss mitigation since the Non-Borrower is not on the original mortgage When a borrower uses a non-borrower household member's income in qualifying for a loss mitigation home retention option and that non-borrower household member will be included on the modified note, the non-borrower household member must sign all required loss mitigation documentation.
Divorce / Legal Separation	<p>In instances where borrowers are divorced or legally separated a lender can exclude an obligated borrower when determining eligibility for all loss mitigation options, providing the court has deemed the borrower not responsible for the mortgage. The remaining obligated borrower must provide the fully executed legal document (i.e. Divorce Decree) that shows the court's order, as well as an executed Quit Claim if necessary. If documented, the divorced/separated party does not need to sign any required documentation for the purposes of loss mitigation.</p>
Delegated Loss Mitigation	<p>7 CFR 3555 introduced the ability for the agency to provide servicers with a waiver to received concurrence from RD prior to implementing a loss mitigation servicing plan. Delegation of all loss mitigation activity under this waiver to the servicer is the preferred method for USDA RD; however, the servicer must demonstrate they no longer require oversight from the agency.</p>

General Other Eligibility Factors

NEW: Guidance is added to allow loss mitigation review for a borrower(s) in bankruptcy.

General Income Verification Other/Benefit Income

NEW: This section was added to standardize income documentation requirements for all loss mitigation options.

NEW: New documented income types may be considered for repayment income to determine eligible loss mitigation solutions.

General Non-Borrower Income

NEW: Non-borrowers who occupy the property may have their income considered to determine eligible loss mitigation solutions when each bullet is met.

General Divorce / Legal Separation

NEW: Loss mitigation solutions may be determined without an obligated borrower when documentation states they are not responsible for the mortgage.

General Delegated Loss Mitigation

NEW: A new section was added to introduce delegated loss mitigation.

Pursuant to section, special loan servicing shall be used to bring the borrower's mortgage payment to income ratio as close as possible to, but not less than, 31 percent with a maximum ratio of 36%. The mortgage payment to income ratio is defined as the monthly mortgage payment (principal, interest, taxes, insurance and association dues) if applicable) for the modified mortgage divided by the borrower's gross monthly income.

Special Loan Servicing (SLS)

NEW: The maximum allowable PITI ratio for SLS cannot exceed 36 percent.

ATTACHMENT 18-~~AB~~ ACCEPTABLE STATE FORECLOSURE TIME FRAMES

State	Typical Security Document	Foreclosure Method Reasonable Diligence Time Frames In Months (Days) ¹ – Effective 9/1/2014 01/01/2016		First Legal Action to Commence (Initiation) of Foreclosure
		Non-judicial	Judicial	
Alabama	Mortgage	46 (1280)		Publication
Alaska	Deed of Trust	59 (45270)		Recording of Notice of Default
Arizona	Deed of Trust	5 (150)		Recording of Notice of Sale
Arkansas	Deed of Trust	59 (45270)		Recording of Notice of Default
California	Deed of Trust	211 (24330)		Recording of Notice of Default
Colorado	Deed of Trust	28 (2440)		Filing of Foreclosure Docs with Public Trustee
Connecticut	Mortgage		109 (34570)	Delivery of Complaint to Sheriff
Delaware	Mortgage		920 (27600)	Complaint Filed
Florida	Mortgage		1521 (45630)	Complaint Filed
Georgia	Security Deed	45 (1250)		Publication
Guam	Mortgage	11 (330)		Posting and Publishing of Notice of Sale
Hawaii	Mortgage	622 (18660)		Publication of Notice of Intent to Foreclose
	Mortgage		96 (27180)	Publication of Notice of Intent to Foreclose Complaint
Idaho	Deed of Trust	812 (240365)		Recording of Notice of Default
Illinois	Mortgage		125 (36450)	Complaint Filed
Indiana	Mortgage		143 (3390)	Complaint Filed
Iowa	Mortgage		17 (510)	Petition Filed
	Deed of Trust	9 (270)		Delivering Notice to Clerk Filing of Notice or Voluntary Foreclosure Agreement with Recorder
Kansas	Mortgage		9 (270)	Complaint Filed
Kentucky	Mortgage		912 (240365)	Complaint Filed
Louisiana	Mortgage		811 (33240)	Petition for Executory Process
Maine	Mortgage		147 (42510)	Complaint Filed
Maryland	Deed of Trust	16 (4480)		Filing an Order to Docket
	Mortgage		16 (4480)	Petition in Equity
Massachusetts ²	Mortgage	89 (2470)		Filing Complaint Relative to Servicemembers Civil Relief Act
Michigan	Mortgage	9 (270)		Publication
Minnesota	Mortgage Deed	10 (300)		Publication
Mississippi	Deed of Trust	9 (270)		Publication

¹ State foreclosure time frames are displayed in months and converted to reasonable days expected.

² The servicer must first obtain a Judgment from the Land Court certifying that the owners of the property being foreclosed are not entitled to relief under the Servicemembers Civil Relief Act (SCRA).

Attachment 18-B: Acceptable State Foreclosure Time Frames Page 1

Revised: Formerly Attachment 18-A.

Clarified: Items were updated as necessary to align with HUD's amended State Foreclosure Timeframes and Reasonable Diligence documents effective January 1, 2016. Therefore these time frames will apply for all foreclosures initiated with the required first legal action on January 1, 2016 forward. These timeframes do not apply to foreclosures already in process at the time this revision of HB-1-3555 is effective.

		Non-judicial	Judicial	
Missouri	Deed of Trust	42 (1250)		Publication
Montana	Trust Indenture	39 (2470)		Recording of Notice of Sale
Nebraska	Deed of Trust	58 (45240)		Publication of Notice of Sale
	Mortgage		68 (48240)	Petition
Nevada	Deed of Trust	17 (2510)		Recording of Notice of Default
New Hampshire	Mortgage	48 (42240)		Publication
New Jersey	Mortgage		159 (45570)	Complaint Filed
New Mexico	Mortgage		918 (48540)	Complaint Filed
New York	Mortgage		4921 (57630)	Complaint Filed
North Carolina	Deed of Trust	59 (45270)		Notice of Hearing
North Dakota	Mortgage		815 (24450)	Complaint Filed
Ohio	Mortgage Deed		123 (3690)	Complaint Filed
Oklahoma	Mortgage		913 (27390)	Petition Filed
Oregon	Deed of Trust	714 (24420)		Recording of Notice of Default
Pennsylvania	Mortgage		149 (33570)	Complaint Filed
Puerto Rico	Mortgage		148 (42540)	Complaint Filed
Rhode Island	Mortgage	16 (4480)		Publication
South Carolina	Mortgage		914 (27420)	Complaint Filed
South Dakota	Mortgage		103 (3990)	Complaint Filed
	Deed of Trust	9 (270)		Publication of Notice of Sale
Tennessee	Deed of Trust	4 (120)		Publication
Texas	Deed of Trust	37 (9210)		Posting and Filing of Notice of Sale
Utah	Deed of Trust	612 (483659)		Recording of Notice of Sale
	Mortgage		142 (39965)	Complaint Filed
Vermont	Mortgage	4(120)	4421 (42630)	Complaint Filed
Virgin Islands	Mortgage		15 (450)	Complaint Filed
Virginia	Deed of Trust	47 (42410)		Publication
Washington	Deed of Trust	16 (4480)		Recording of Notice of Sale
West Virginia	Deed of Trust	5 (150)		Publication
Wisconsin	Mortgage		12 (3695)	Complaint Filed
Wyoming	Mortgage	6 (180)		Publication

Attachment 18-B: Acceptable State Foreclosure Time Frames Page 2

Revised: Formerly Attachment 18-A.

Clarified: Items were updated as necessary to align with HUD's amended State Foreclosure Timeframes and Reasonable Diligence documents effective January 1, 2016. Therefore these time frames will apply for all foreclosures initiated with the required first legal action on January 1, 2016 forward. These timeframes do not apply to foreclosures already in process at the time this revision of HB-1-3555 is effective.

ATTACHMENT 18-CB
ACCEPTABLE STATE LIQUIDATION COSTS AND FEES
Schedule of Standard Attorney/Trustee Fees
Effective 1/1/2016

STATE	NON-JUDICIAL FORECLOSURE	JUDICIAL FORECLOSURE	BANKRUPTCY CLEARANCE	POSSESSORY ACTION	DEED-IN-LIEU
AK	\$1,230 ⁶²⁵		Varies ¹³	\$375 ⁵⁰⁰	\$400
AL	\$900 ^{1,325}		Varies ¹³	\$375 ⁵⁰⁰	\$400
AR	\$1,050 ¹⁷⁵		Varies ¹³	\$275 ⁵⁰⁰	\$400
AZ	\$925 ^{1,350}		Varies ¹³	\$275 ⁴⁰⁰	\$400
CA	\$1,000 ¹²⁵		Varies ¹³	\$525 ⁵⁰	\$400
CO	\$1,225 ⁶⁵⁰		Varies ¹³	\$275 ⁴⁵⁰	\$400
CT		\$42,704 ⁵⁰ ²²⁴	Varies ¹³	\$375 ⁴⁰⁰	\$400
DC	\$650 ⁺		Varies ¹³	\$375	\$400
DE		\$1,359 ⁰⁰	Varies ¹³	\$325 ⁴⁵⁰	\$400
FL		\$2,258 ⁰⁰	Varies ¹³	\$375 ⁴⁰⁰	\$400
GA	\$900 ^{1,325} ⁺		Varies ¹³	\$375 ⁴⁵⁰	\$400
GU	\$1,250 ⁶²⁵		Varies ¹³	\$375 ⁵⁰	\$400
HI	\$4,250	\$2,409 ⁵⁰	Varies ¹³	\$525	\$400
IA	\$850 ^{1,275}	\$1,385 ⁰	Varies ¹³	\$325 ⁵⁰	\$400
ID	\$1,025 ⁰		Varies ¹³	\$375 ⁴⁰⁰	\$400
IL		\$2,300 ^{1,750}	Varies ¹³	\$325 ⁴⁰⁰	\$400
IN		\$2,050 ^{1,300}	Varies ¹³	\$325 ⁴⁵⁰	\$400
KS		\$1,258 ⁰⁰	Varies ¹³	\$325 ⁴⁰⁰	\$400
KY		\$4,702 ²⁵⁰	Varies ¹³	\$375 ⁴⁰⁰	\$400
LA		\$1,359 ⁰⁰	Varies ¹³	\$325 ⁵⁰⁰	\$400
MA	\$2,002 ⁵⁰	\$2,250 ⁰	Varies ¹³	\$625	\$400
MD	\$2,450 ⁰ ⁺⁺²	\$4,600	Varies ¹³	\$375 ⁵⁰⁰	\$400
ME		\$42,753 ⁰⁰	Varies ¹³	\$525	\$400
MI	\$1,425 ⁰⁰⁰		Varies ¹³	\$425	\$400
MN	\$1,025 ⁴⁵⁰		Varies ¹³	\$325	\$400
MO	\$51,395 ⁰		Varies ¹³	\$325 ⁴⁵⁰	\$400
MS	\$91,300 ¹		Varies ¹³	\$375 ⁴⁰⁰	\$400
MT	\$1,002 ⁵⁰		Varies ¹³	\$375 ⁴⁰⁰	\$400
NC	\$1,575 ¹⁵⁰		Varies ¹³	\$375 ⁴⁰⁰	\$400
ND		\$1,258 ⁰⁰	Varies ¹³	\$325 ⁵⁰	\$400
NE	\$1,250 ⁰⁰⁰	\$900 ^{1,950}	Varies ¹³	\$325 ⁵⁰	\$400
NH	\$1,445 ⁰		Varies ¹³	\$425	\$400
NJ		\$2,429 ⁷⁵	Varies ¹³	\$375 ⁵⁰⁰	\$400
NM		\$42,500 ⁵⁰	Varies ¹³	\$275 ⁴⁰⁰	\$400
NV	\$1,400 ⁵²⁵		Varies ¹³	\$375 ⁶⁵⁰	\$400
NY		\$2,090 ⁰ ²²⁰	Varies ¹³	\$725	\$400
OH		\$42,700 ²⁵⁰	Varies ¹³	\$225 ⁶⁰⁰	\$400
OK		\$2,000 ^{1,450}	Varies ¹³	\$275 ³⁵⁰	\$400
OR	\$1,000 ¹²⁵	\$2,056 ⁰⁰	Varies ¹³	\$375 ⁴⁰⁰	\$400
PA		\$42,350 ⁶⁵⁰ ⁺⁺	Varies ¹³	\$425 ⁵⁰	\$400
PR		\$42,500 ⁵⁰ ^{++5,10}	Varies ¹³	\$300	\$400
RI	\$1,300 ⁷²⁵		Varies ¹³	\$525	\$400

Attachment 18-C: Acceptable State Liquidation Costs and Fees
Page 1

Revised: Formerly Attachment 18-B.

Clarified: Items were updated as necessary to align with HUD's amended Acceptable State Liquidation Costs and Fees effective January 1, 2016. Therefore these costs and fees will apply for all foreclosures initiated with the required first legal action on January 1, 2016 forward. These costs and fees do not apply to foreclosures already in process at the time this revision of HB-1-3555 is effective.

STATE	NON-JUDICIAL FORECLOSURE	JUDICIAL FORECLOSURE	BANKRUPTCY CLEARANCE	POSSESSORY ACTION	DEED-IN-LIEU
SC		\$42,652 ²⁰	Varies ¹³	\$375450	\$400
SD	\$600	\$1,258 ²⁰	Varies ¹³	\$325400	\$400
TN	\$1,300 ⁹⁴⁰⁰⁺		Varies ¹³	\$375	\$400
TX	\$9091,325		Varies ¹³	\$325400	\$400
UT	\$91,325	\$925	Varies ¹³	\$275400	\$400
VA	\$1,350 ⁹²³⁺⁺		Varies ¹³	\$375600	\$400
VI		\$1,800	Varies ¹³	\$300	\$400
VT		\$2,702 ²⁰	Varies ¹³	\$375	\$400
WA	\$1,050		Varies ¹³	\$375450	\$400
WI		\$42,500 ²⁰	Varies ¹³	\$325400	\$400
WV	\$1,002 ²⁰¹⁻⁴²		Varies ¹³	\$375400	\$400
WY	\$1,002 ²⁰		Varies ¹³	\$375500	\$400

Footnotes:

- (1) The fee covers the combined attorney's and notary's fees.
- (2) This fee applies to ~~strict-completed~~ foreclosures. If the ~~mortgage loan is reinstated, the maximum fee is the amount allowed under applicable law, not to exceed \$725 for reinstatements after recording the Notice of Default but before mailing the Notice of Sale, or \$1075 for reinstatements after mailing the Notice of Sale but before the Trustee's sale.~~ ~~foreclosure orders a Foreclosure by Sale, the fee will be \$1,950.~~
- (3) ~~An additional \$200 will be permitted when the property is sold to a third party and the attorney must perform additional work to complete the transfer of title to the successful bidder. The fee covers both the attorney's fee and the trustee's commission (or statutory fee).~~
- (4) ~~This fee applies to Strict Foreclosures. If the court orders a Foreclosure by Sale (or a Foreclosure by Market Sale on or after January 1, 2015), the fee will be \$2,700, includes reimbursement of any fee for the attorney's certificate of title.~~
- (5) ~~The fee increases by \$100 if foreclosure is achieved by summary judgment includes the attorney's fee, the notary's fee and the trustee's commission (or statutory fee).~~
- (6) ~~In addition to the allowable foreclosure fee, an auctioneer's fee of up to \$250 is allowed for the services of a state licensed auctioneer requested by the lender and approved by the court. [Reserved]~~
- (7) ~~The fee increases to \$1,100 for a non-judicial foreclosure for a case in which the attorney provides services for "proceedings subsequent" that involve registered land. A fee of \$3,950 will be permitted for judicial foreclosures in locations other than Honolulu County.~~
~~The fee includes the notary's fee. An additional fee of \$250 is allowed for an attorney court appearance for a foreclosure hearing.~~
- (8) ~~This fee relates to the exercise of the power of sale under a deed of trust. [Reserved]~~
- (9) ~~This fee applies to foreclosures other than those conducted in New York City and Long Island. A fee of \$2,400 applies to foreclosures conducted in the five boroughs of New York City (Bronx, Brooklyn, Kings, Manhattan, Queens and Staten Island) and in Long Island (Nassau and Suffolk Counties). In New York, the non-judicial foreclosure process is to be used only in connection with cooperative share loans. The fee includes all steps in the foreclosure process, including the transfer of the stock and the lease for an occupied cooperative unit. The allowable fee for judicial foreclosures in New York, where judgment is obtained as a result of an uncontested trial, is established at \$3,650. For judicial foreclosures in the City of New York and on Long Island (Nassau and Suffolk Counties), the allowable fee is \$3,500 (or \$4,250 if judgment is obtained via uncontested trial).~~
- (10) ~~The fee covers certain additional legal actions necessary to complete the foreclosure, including motions to postpone or relist a sale and motions to reassess damages. In addition to the allowable foreclosure fee, USDA will pay a notary fee up to the greater of \$250 or one percent (1%) of the bid amount on the mortgage being foreclosed.~~

Attachment 18-C: Acceptable State Liquidation Costs and Fees Page 2

Revised: Formerly Attachment 18-B.

NEW: Footnotes have been updated with additional guidance, dates, fees, etc.

- (11) ~~The allowable fee for foreclosures in Florida, where judgment is obtained as a result of an uncontested trial, is established at \$3,350. In addition to the allowable foreclosure fee, \$150 is allowed for a notary fee for completed foreclosures. However, if a deed of judicial sale cannot be executed contemporaneously with the foreclosure sale, \$300 is allowed for the notary fee.~~
- (12) ~~When a servicer requests reimbursement from USDA for a fee amount based on specified conditions contained in a footnote above, the servicer's reimbursement request must contain a description or sufficient supporting documentation to allow USDA to properly evaluate the request. This fee assumes that all required procedural steps have been completed. The maximum attorney's fee varies based on the chapter under which the bankruptcy action is filed.~~
- (13) ~~This fee assumes that all required procedural steps have been completed. The maximum attorney fee varies based on the chapter under which the bankruptcy action is filed.~~
- ~~For Chapter 7 bankruptcies, the maximum allowable fee is \$650~~1,175.
 1. ~~Motion for Relief is \$750~~
 2. ~~Proof of Claim Preparation (if required) is \$500~~
 3. ~~Reaffirmation Agreement is \$125~~
 - ~~For Chapter 11 bankruptcies, the maximum allowable fee is \$1,600.~~
 1. ~~Proof of Claim Preparation & Plan Review is \$750~~
 2. ~~Motion for Relief is \$850~~
 - ~~For Chapter 11, 12, and 13 bankruptcies, the maximum allowable fee is \$12,0100.~~
 1. ~~Proof of Claim Preparation & Plan Review is \$750~~
 2. ~~Objection to Plan is \$500~~
 3. ~~Motion for Relief is \$850~~
 - ~~For Chapter 13 bankruptcies, the maximum allowable fee is \$2,850~~
 1. ~~Proof of Claim Preparation & Plan Review is \$650~~
 2. ~~Objection to Plan is \$500~~
 3. ~~Motion for Relief is \$850~~
 4. ~~Payment Change Notification (if needed) is \$50~~
 5. ~~Notice of Fees, Expenses, and Charges is \$100~~
 6. ~~Post-Stipulation Default / Stay Termination is \$50 / \$200~~
 7. ~~Response to Final Cure Payment Notice is \$50 (agreed) / \$500 (objection)~~

Attachment 18-C: Acceptable State Liquidation Costs and Fees

Page 3

Revised: Formerly Attachment 18-B.

NEW: Footnotes have been updated with additional guidance, dates, fees, etc.

-ATTACHMENT 18-D
USDA INDIVIDUAL STATE BASED BIDDING CHART

State	USDA Bid Percentage (Bid % of Value)	State	USDA Bid Percentage (Bid % of Value)
AK	80%	MT	80%
AL	71%	NC	72%
AR	73%	ND	64%
AZ	80%	NE	80%
CA	80%	NH	80%
CO	80%	NJ	69%
CT	78%	NM	80%
DC	80%	NV	72%
DE	72%	NY	80%
FL	78%	OH	76%
GA	78%	OK	80%
HI	80%	OR	80%
IA	69%	PA	72%
ID	78%	RI	80%
IL	66%	SC	68%
IN	71%	SD	80%
KS	74%	TN	78%
KY	72%	TX	80%
LA	80%	UT	80%
MA	80%	VA	79%
MD	77%	VT	51%
ME	78%	WA	80%
MI	75%	WI	78%
MN	80%	WV	78%
MO	76%	WY	78%
MS	74%		

Attachment 18-D: USDA Individual State Based Bidding Chart

NEW: Bidding guidance is provided for each State. The listed percentage may be bid without USDA concurrence.

Chapter 19: Custodial and Real Estate Owned Property

B. Appraisal

To determine the property's value, the lender must arrange for an appraisal. Appraiser/client confidentiality under USPAP Ethics Rules does not permit the appraiser to discuss the appraisal with anyone other than the client, without the client's permission. ~~Therefore~~

~~It recommended, but not required, that~~ USDA/RD ~~must~~ be identified as both a client and an intended user with the lender in the appraisal report obtained. ~~Appraisals that list the clients other than USDA/RD and the Lender, such as servicers or management companies are not acceptable.~~ State law may prohibit access to the property for an internal inspection, when the property remains occupied by the borrower.

19.4: Property Disposition B. Appraisal

NEW: USDA does not have to be listed as an intended user on the appraisal report.

Deleted: Guidance that stated appraisals with clients other than USDA/RD and the Lender are not acceptable is removed.

Chapter 20: Loss Claims – Collecting on the Guarantee

If the property remains unsold at the expiration of the marketing period, the Agency will obtain a liquidation value appraisal and issue the lender a notice of value on which the loss claim should be based. A loss will be calculated on based upon an acquisition and management factor. Foreclosure liquidation costs incurred should be documented for inclusion in the loss claim calculation. In order to estimate disposition costs, a standard acquisition and management factor of ~~14~~15.95 percent of the liquidation appraised value is used. Lenders must notify the Agency to order a liquidation value appraisal within 15 days of the end of the marketing period. Loss claims for unsold REO must be filed by the lender within 30 days of obtaining a liquidation value appraisal. The Agency will notify the lender upon obtaining a liquidation value appraisal. Loss claims filed beyond this period of time will be rejected by the Agency.

(VA), which estimates REO expenses. The most current cost factor is ~~14~~15.95 percent. The loss claim must be submitted to the Agency within 30 days of the day the lender receives the appraised liquidation value notification.

- Prior to ordering a liquidation appraisal, the Agency approval official is responsible for determining the need for to request a liquidation value appraisal, in accordance with Paragraph 20.3 C noted above will request a certification of funds from the Fiscal Control Branch (FCB) in the ~~Office of the Deputy Chief Financial Officer~~ National Finance and Accounting Operations Center (DCFO-NFAOC) in St. Louis, Missouri. The request should be sent to dcfo-fcb2@stl.usda.gov. FCB will reply by email within 24 hours certifying funds are available for the proposed appraisal order. Include in the request the following information for fund certification.
- Forward the completed form and invoice requesting payment to:
USDA, Rural Development
~~DCFO-NFAOC~~ FC-350/GLB
PO Box 200011
St. Louis, MO 63120-0011

20.2: Loss Claim Coverage C. Reasonable and Customary 2. Unsold REO Properties

Clarification: VA net recovery rate was changed to reflect most recent published percent.

20.3: Filing a Loss Claim B. Unsold REO Property

Clarification: VA net recovery rate was changed to reflect most recent published percent.

20.3: Filing a Loss Claim C. Definition of Value Types in the Appraisal Process and General Procedures

Revised: DCFO reference has been changed to NFAOC.

20.3: Filing a Loss Claim C. Definition of Value Types in the Appraisal Process and General Procedures

Revised: DCFO reference has been changed to NFAOC.

Glossary

mortgage credit certificate (MCC)

A special tax credit, issued by a state or local housing finance agency, to qualified first-time homebuyers that are ~~counted as addition to the borrower's income~~ used to enhance repayment ability.

Reamortization agreement

An instrument executed by the borrower which may establish the permanent loan in a construction-to-permanent loan type. Agreement could also be known as a modification agreement.

Mortgage Credit Certificate (MCC)

Clarified: The definition of a MCC was clarified to ensure the credit is added to repayment income (repayment ability).

Reamortization agreement:

NEW: A reamortization agreement or loan modification agreement may be utilized to establish the permanent loan for a single close new construction loan as authorized in 3555.105.

Disclaimer: Every effort has been made to ensure this job aid is accurate.

The 7 CFR Part 3555 Final Rule was published in the Federal Register on February 8, 2016. It is effective on March 9, 2016. It is available online at: <https://www.gpo.gov/fdsys/pkg/FR-2016-02-08/pdf/2016-01872.pdf>.

The revised HB-1-3555 will be published March 9, 2015 on the USDA Regulations and Guidance website online at: <http://www.rd.usda.gov/publications/regulations-guidelines/handbooks#hb13555>.

To receive all USDA Single Family Housing Guaranteed Loan Program announcements, sign up for GovDelivery: https://public.govdelivery.com/accounts/USDARD/subscriber/topics?qsp=USDARD_25.