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/A, “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.
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 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 (QC) Overview to assist in analyzing the lender’s QC plan is provided in Attachment 3-C. A 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
A. Approval from Another Recognized Source

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 3.8C.

ATTACHMENT 3-A
LENDER APPROVAL CHECKLIST

No revisions.

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

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

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.

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.
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://usdaoline.sc.egov.usda.gov/USDALincTrainingResourceLib.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 is 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.

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. Closing 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.

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.

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

• Loan Discount Points

NEW: Discount points may be financed for all applicants (low and moderate income).
Clarification: Appraisals are only required to be submitted to USDA as applicable.
8.2: Applicant Eligibility Requirements

A. Owning A Dwelling

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

- 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 stairlift, 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 relocating with a new employer, or being transferred by the current employer to an area not within reasonable and locally recognized commuting distance.

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:
  1. provided proof that a discharge will be received within a reasonable period of time, usually within 1 year, and
  2. 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.

**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.

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

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

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

- 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.

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

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

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

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

- 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: 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.

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.
• 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.

• 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 separated spousal income (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 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 schedules. Signed business tax returns for the most recent two years with all applicable schedules, year-to-date profit and loss 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.

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**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.

**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.
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

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.
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.

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

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.

10: Credit Analysis

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

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.

- **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 Schedule 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 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.

- 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.

**ATTACHMENT 9-C**

**ANNUAL INCOME SOURCES**

1. SOURCES OF INCOME COUNTED FOR ANNUAL INCOME

**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.

**10.3 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).
10.5 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 or more eligible tradelines are necessary to validate an applicant’s credit report score.** Eligible tradelines consist of credit accounts (resembling 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 tradelines.

Confirm the applicant has at least two 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 loan);**
- **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.**

**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.

**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.

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

**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 or history of a comparable tradeline is considered an eligible tradeline. The inability to validate credit scores used by GUS will require rehabilitation of GUS applications receiving an “Accept” underwriting recommendation, and for applications received by the lender. In these instances and establish minimum payment history through the use of a non-traditional credit history will be required, report.

10.5: 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 (PTI) as a cash reserve post-closing; or
  - Any other reference which gives insight into the applicant’s willingness to make periodic payments 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 itself 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 lender's 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 lender's permanent file.

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

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

Clarification: Collections must meet 10.9.

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 tradeline, or the owners of the tradeline are 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.

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

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.

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.
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

B. Acceptable Credit Scores for Automated Underwriting—With Credit Scores

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 applicant. 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 downgrade 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 downgrade 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.

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 an 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.

Clarification: Manually underwritten loans with collections are addressed. If the loan is approved with this adverse credit, 10.8 must be met.
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 form 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) The trade line(s) in question is owned by another applicant on the mortgage loan application.
2) The owner of the trade line is the spouse of an applicant.
3) 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.
10.13 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”**: 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 don 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.

**Clarification:**

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

**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.

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

**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, 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.
**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.

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**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

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.

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 downgraded 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.
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
  - 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, As 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]

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.

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.

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:

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.

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.
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 require 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.
11.2: The Ratios
B. The Total Debt Ratio

NEW: Documentation guidance is provided for previous mortgage liabilities.

- **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 10.11 of Chapter 10 of this Handbook will be included in the total debt ratio.

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 payments 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.
11.7 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.

Chapter 12: Property and Appraisal Requirements

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

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.

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.
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 4150.2-4000.1).

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 555.202(e)]

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.

**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.

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**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.

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**C. Escrow for Exterior Development** [7 CFR 555.202(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;

- The funds to be escrowed are not less than 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

**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.
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.

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

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 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.
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.

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

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 CAFVRS and document their permanent case file with results. An applicant is ineligible if they are not currently engaged in 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 who 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

Clariation: Lenders are not required to check the SAM website directly. Automated methods to verify SAM are eligible.
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 manually underwritten application packages may be submitted by email, or hard copy 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 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://usda.alsi.gov/usda/lnetTrainingResource1.fo.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.
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.

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 lender’s 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.

15.5: Agency Review of Loan Application Package

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

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.**

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.**

C. Return of 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 GIS will 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 need for the Agency to respond to the request, the Agency will return the application package to the lender. Completed applications are processed in due order by the Agency. Only complete application requests will be considered for processing by the Agency, contact 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.

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.**

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.**

15.6: 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**

**Guaranteed Rural Housing**

### 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 allowed size 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 at [https://identity.eas.usda.gov/RF/Email.do](https://identity.eas.usda.gov/RF/Email.do) in the subject line identify the case by: Loan Origination: Borrower Last Name, First Name.

<table>
<thead>
<tr>
<th>General Information</th>
</tr>
</thead>
<tbody>
<tr>
<td>Applicant(s):</td>
</tr>
<tr>
<td>Lender:</td>
</tr>
<tr>
<td>Date:</td>
</tr>
</tbody>
</table>

### File Stacking Order Checklist

- **Guaranteed Underwriting System (GUS) - Underwriting Recommendation: ACCEPT**

Please check the credit package in the following document order:

- **Form RD 3555-21, “Request for Single Family Housing Loan Guarantee**
  - Note: Must be completed and executed by all applicants and lender

- **Income Calculations- Worksheets for Calculating Income**

- **Final GUS Underwriting Findings and Analysis Report**
  - Note: Final submission to be signed, retained in lender’s permanent loan file

- **FEMA Form 885-a-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

- **Evidence of qualified alien (if the applicant is not a U.S. citizen)**

- **Credit Report, Non-Purchasing Spouse (if the applicant or property is in a community property state – AZ, CA, ID, LA, NV, NM, TX, WA, WJ)**

- **Uniform Residential Appraisal Report (URAR)**
  - Note: Uniform Residential Appraisal Report (URAR) must be part of report

**Deleted:** The income worksheet was removed as an individual document because it is part of a complete Form RD 3555-21.
**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: Agency Documentation and Processing Checklist (Internal Agency Use)

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

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### 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 or adheres to Manual VYI requirements, unless otherwise noted.

**File Type:**

- Manual Underwriting: for GUS Accept (add extent to streamlining documentation as provided in Chapter 19, GUS Underwriting with Caution Underwriting Recommendation). GUS Accept if Lender Quality Control Measures (fully documented loan file required of GUS Underwriting Findings and Analysis Report, GUS Reapplicant with Caution Underwriting Recommendation or Manually Underwritten Loans)

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### Lender Request

**Form RD 3555-21: Request for Single Family Housing Loan Guarantee**

- [ ] Completed and executed by all borrowers and lender
- [ ] Interest rate locked. Lock date: __________, Expiration Date: __________
- [ ] For locked rates, rates confirmed to meet § 3555.310
  
- [ ] Data Agency confirmed: ________________
- [ ] Interest rate at closing: Condition for lock date

---

### Lender Underwriting

**Underwriting Analysis** (FNMA 1000/FNMA 1007 or similar)

- [ ] Confirmation requested by underwriter
- [ ] Adverse credit and supporting documentation that meets Chapter 10 of the FNMA 1007 or similar

- [ ] No

  Note: A GUS Accept subject to a fully documented file does not require the submission of a credit report or supporting documents to the Agency.

- [ ] Verification of Net Income

  Yes  |  No  |  N/A

  (Applicable to manually underwritten loans with credit scores less than 580)

  Note: A GUS Accept subject to a fully documented file does not require a Verification of Income

- [ ] Ratio Note: Referred to Lender

  Yes  |  No  |  N/A

  (Note: A GUS Accept subject to a fully documented file does not require a ratio note request or a reference to the Agency)

- [ ] Evidence of compensating factors submitted by Lender?

  Yes  |  No  |  N/A

- [ ] Ratio Note reviewed and approved?

  Yes  |  No  |  N/A

- [ ] Net Income

  (Net Income was reviewed and approved)

- [ ] Total Obligations

  (Total Obligations was reviewed and approved)

- [ ] Debt Service Coverage

  (Debt Service Coverage was reviewed and approved)

- [ ] Mortgage Credit Certificate

  (Mortgage Credit Certificate was reviewed and approved)

- [ ] Full GUS Underwriting Findings Report, as applicable

---
**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.

**Clarification:** Complete this section only for loans that require manual GUS entry.
Revised: The FEMA elevation information for new construction is moved under the “Note” section.
The Rural Development decision will consist of the following actions when a lender requests a Conditional Commitment for Loan Note Guarantees:

- Form RD 1920-16, Administrative Appraisal Review for Single Family Housing
- Form RD 1940-20, Environmental Checklist for Categorical Eligibility
- Form RD 1940-21, Environmental Assessment for Class Action, as applicable
- Form RD 1940-22, Environmental Checklist for Categorical Exclusions
- Form RD 1940-23, Environmental Assessment for Class Action, as applicable
- Form RD 1940-24, Environmental Assessment for Non-Categorical Exclusions
- Form RD 1940-25, Environmental Assessment for Class Action, as applicable
- Form RD 1940-26, Environmental Assessment for Non-Categorical Exclusions

### Rural Development Decision

**Approved, Denied, Withdrawn**

- **Approved** - Prepare Form RD 3055-16/15E
  - Date of RD 1950-16/15E Conditional Commitment for Loan Note Guarantee
  - Approved application submitted from OGS in GLS populated manually
- **Denied** - Prepare denial letter with applicable appeal rights
  - Denied application submitted from OGS in GLS populated manually
- **Withdrawn** - Update requested Conditional Commitment for loan Guarantee is withdrawn
  - Withdrawn application submitted from OGS in GLS populated manually

**Rural Development Decision – Approved, Denied, Withdrawn**

**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.

### GLS Processing: Steps by Rural Development

**Complete the Borrower Maintenance page in GLS**

- Establish the borrower(s) in GLS. Complete for each borrower.

**Complete the Add Application page in GLS**

- OGS Loans: Complete the USGS Administration page. Save the page. Submit the application in GLS.
- Non-OGS Loans: Complete the Add Application page in GLS.

**Complete the Obligation Request page in GLS**

- Date of Obligation in GLS
  - (GLS 1A obligation transaction processed)

**Form RD 1900-19, Guaranteed Loan Closing Report**

- Data of Loan Closing
  - Completed and executed by lender
  - Loans closed for amount of commitment: Yes No
Clarification: Floating interest rates that exceed the note rate on the commitment will require additional information.
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 to close the loan. If construction is involved, the requested expiration date of Form RD 3555-18 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 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.

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 an overseas duty assignment or on an unaccompanied tour, and incapacitated, disabled, or incapable of signing 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.
• 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 of 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.
• All planned property acquisition (construction, repairs, alterations or improvements) has been completed upon which the market value of the property is predicated unless:
  o 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).
  o 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.
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’s workflow action will notify the lender to retrieve Form RD 3555-17E and the “Loan Amortization Schedule” upon completing a review of closing documents.

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

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.

NEW: Guidance is included in reference to flood insurance requirements and safe water precautions when properties are located in a SFHA.
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.
  - 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 (DCFONFAOC). New servicing lenders will enter into an electronic agreement to 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://usdaline.sc.egov.usda.gov/USDAlincTrainingResourcesLib.do. Scroll to “Electronic Status Reporting.”

If a lender is unable to sell a loan and/or retains the loan for servicing, contact the DCFONFAOC at RD.DCFO.GL.B@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 unrepaid 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 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.

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

**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 guide online at: https://usdaline.sc.egov.usda.gov/USDALinTrainingResourcesLib.do. Scroll the page to “Loss Mitigation.”

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

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: 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 services 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 borrower's 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.

**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.

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.”
### Overview of Loss Mitigation Guide Revisions

#### Other Eligibility Factors

<table>
<thead>
<tr>
<th>General Other Eligibility Factors</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>NEW:</strong> Guidance is added to allow loss mitigation review for a borrower(s) in bankruptcy.</td>
</tr>
</tbody>
</table>

#### Income Verification

<table>
<thead>
<tr>
<th>General Income Verification Other/Benefit Income</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>NEW:</strong> This section was added to standardize income documentation requirements for all loss mitigation options.</td>
</tr>
<tr>
<td><strong>NEW:</strong> New documented income types may be considered for repayment income to determine eligible loss mitigation solutions.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Non-Taxable Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>The servicer, at its discretion, may “gross-up” income not subject to Federal Taxes.</td>
</tr>
</tbody>
</table>

#### Non-Borrower Income

<table>
<thead>
<tr>
<th>General Non-Borrower Income</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>NEW:</strong> Non-borrowers who occupy the property may have their income considered to determine eligible loss mitigation solutions when each bullet is met.</td>
</tr>
</tbody>
</table>

#### Divorce / Legal Separation

<table>
<thead>
<tr>
<th>General Divorce / Legal Separation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>NEW:</strong> Loss mitigation solutions may be determined without an obligated borrower when documentation states they are not responsible for the mortgage.</td>
</tr>
</tbody>
</table>

#### Delegated Loss Mitigation

<table>
<thead>
<tr>
<th>General Delegated Loss Mitigation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>NEW:</strong> A new section was added to introduce delegated loss mitigation.</td>
</tr>
</tbody>
</table>

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**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-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.

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**ATTACHMENT 18-AB**

**ACCEPTABLE STATE FORECLOSURE TIME FRAMES**

<table>
<thead>
<tr>
<th>State</th>
<th>Typical Security Document</th>
<th>Foreclosure Method Reasonable Diligence Time Frames In Months (Days)¹ – Effective 01/01/2016</th>
<th>First Legal Action to Commence (Initiation) of Foreclosure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alabama</td>
<td>Mortgage</td>
<td>46 (46)</td>
<td>Publication</td>
</tr>
<tr>
<td>Alaska</td>
<td>Deed of Trust</td>
<td>36 (36)</td>
<td>Recording of Notice of Default</td>
</tr>
<tr>
<td>Arizona</td>
<td>Deed of Trust</td>
<td>36 (36)</td>
<td>Recording of Notice of Sale</td>
</tr>
<tr>
<td>Arkansas</td>
<td>Deed of Trust</td>
<td>36 (36)</td>
<td>Recording of Notice of Default</td>
</tr>
<tr>
<td>California</td>
<td>Deed of Trust</td>
<td>36 (36)</td>
<td>Recording of Notice of Default</td>
</tr>
<tr>
<td>Colorado</td>
<td>Deed of Trust</td>
<td>60 (60)</td>
<td>Filing of Foreclosure Does with Public Trustee</td>
</tr>
<tr>
<td>Connecticut</td>
<td>Mortgage</td>
<td>182 (182)</td>
<td>Delivery of Complaint to Sheriff</td>
</tr>
<tr>
<td>Delaware</td>
<td>Mortgage</td>
<td>260 (260)</td>
<td>Complain Filed</td>
</tr>
<tr>
<td>Florida</td>
<td>Mortgage</td>
<td>250 (250)</td>
<td>Complain Filed</td>
</tr>
<tr>
<td>Georgia</td>
<td>Security Deed</td>
<td>36 (36)</td>
<td>Publication</td>
</tr>
<tr>
<td>Hawaii</td>
<td>Mortgage</td>
<td>622 (622)</td>
<td>Publication of Notice of Intent to Foreclose</td>
</tr>
<tr>
<td>Idaho</td>
<td>Mortgage</td>
<td>92 (92)</td>
<td>Publication of Notice of Intent to Foreclose</td>
</tr>
<tr>
<td>Illinois</td>
<td>Deed of Trust</td>
<td>412 (412)</td>
<td>Recording of Notice of Default</td>
</tr>
<tr>
<td>Indiana</td>
<td>Mortgage</td>
<td>129 (129)</td>
<td>Complain Filed</td>
</tr>
<tr>
<td>Iowa</td>
<td>Mortgage</td>
<td>175 (175)</td>
<td>Complain Filed</td>
</tr>
<tr>
<td>Kansas</td>
<td>Mortgage</td>
<td>9 (270)</td>
<td>Complain Filed</td>
</tr>
<tr>
<td>Kentucky</td>
<td>Mortgage</td>
<td>125 (125)</td>
<td>Complain Filed</td>
</tr>
<tr>
<td>Louisiana</td>
<td>Mortgage</td>
<td>911 (911)</td>
<td>Action for Executory Process</td>
</tr>
<tr>
<td>Maine</td>
<td>Mortgage</td>
<td>147 (147)</td>
<td>Complain Filed</td>
</tr>
<tr>
<td>Maryland</td>
<td>Deed of Trust</td>
<td>16 (16)</td>
<td>Filing an Order to Docket</td>
</tr>
<tr>
<td>Massachusetts²</td>
<td>Mortgage</td>
<td>82 (82)</td>
<td>Filing Complaint Relative to Servicemembers Civil Relief Act</td>
</tr>
<tr>
<td>Michigan</td>
<td>Mortgage</td>
<td>9 (270)</td>
<td>Publication</td>
</tr>
<tr>
<td>Minnesota</td>
<td>Mortgage Deed</td>
<td>10 (360)</td>
<td>Publication</td>
</tr>
<tr>
<td>Mississippi</td>
<td>Deed of Trust</td>
<td>9 (270)</td>
<td>Publication</td>
</tr>
</tbody>
</table>

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).

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73
<table>
<thead>
<tr>
<th>State</th>
<th>Type of Notice</th>
<th>Publication</th>
</tr>
</thead>
<tbody>
<tr>
<td>Missouri</td>
<td>Deed of Trust</td>
<td>45 (1250)</td>
</tr>
<tr>
<td>Montana</td>
<td>Trust Indemnity</td>
<td>20 (300)</td>
</tr>
<tr>
<td>Nebraska</td>
<td>Deed of Trust</td>
<td>48 (14370)</td>
</tr>
<tr>
<td>Vermont</td>
<td>Mortgage</td>
<td>48 (14370)</td>
</tr>
<tr>
<td>Nevada</td>
<td>Deed of Trust</td>
<td>17 (6310)</td>
</tr>
<tr>
<td>New Hampshire</td>
<td>Mortgage</td>
<td>48 (14370)</td>
</tr>
<tr>
<td>New Jersey</td>
<td>Mortgage</td>
<td>121 (35220)</td>
</tr>
<tr>
<td>New Mexico</td>
<td>Mortgage</td>
<td>121 (35220)</td>
</tr>
<tr>
<td>New York</td>
<td>Mortgage</td>
<td>121 (35220)</td>
</tr>
<tr>
<td>North Carolina</td>
<td>Deed of Trust</td>
<td>121 (35220)</td>
</tr>
<tr>
<td>North Dakota</td>
<td>Mortgage</td>
<td>812 (24450)</td>
</tr>
<tr>
<td>Ohio</td>
<td>Mortgage Deed</td>
<td>122 (3690)</td>
</tr>
<tr>
<td>Oklahoma</td>
<td>Mortgage</td>
<td>812 (24450)</td>
</tr>
<tr>
<td>Oregon</td>
<td>Deed of Trust</td>
<td>314 (44220)</td>
</tr>
<tr>
<td>Pennsylvania</td>
<td>Mortgage</td>
<td>122 (3690)</td>
</tr>
<tr>
<td>Puerto Rico</td>
<td>Mortgage</td>
<td>122 (3690)</td>
</tr>
<tr>
<td>Rhode Island</td>
<td>Mortgage</td>
<td>122 (3690)</td>
</tr>
<tr>
<td>South Carolina</td>
<td>Mortgage</td>
<td>122 (3690)</td>
</tr>
<tr>
<td>South Dakota</td>
<td>Mortgage</td>
<td>122 (3690)</td>
</tr>
<tr>
<td>Tennessee</td>
<td>Deed of Trust</td>
<td>3 (270)</td>
</tr>
<tr>
<td>Texas</td>
<td>Mortgage</td>
<td>23 (9420)</td>
</tr>
<tr>
<td>Utah</td>
<td>Deed of Trust</td>
<td>412 (14385)</td>
</tr>
<tr>
<td>Vermont</td>
<td>Mortgage</td>
<td>412 (14385)</td>
</tr>
<tr>
<td>Virgin Islands</td>
<td>Mortgage</td>
<td>15 (450)</td>
</tr>
<tr>
<td>Virginia</td>
<td>Deed of Trust</td>
<td>15 (450)</td>
</tr>
<tr>
<td>Washington</td>
<td>Deed of Trust</td>
<td>15 (450)</td>
</tr>
<tr>
<td>West Virginia</td>
<td>Deed of Trust</td>
<td>15 (450)</td>
</tr>
<tr>
<td>Wisconsin</td>
<td>Mortgage</td>
<td>12 (3605)</td>
</tr>
<tr>
<td>Wyoming</td>
<td>Mortgage</td>
<td>6 (180)</td>
</tr>
</tbody>
</table>

**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.
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.
## Acceptable State Liquidation Costs and Fees

<table>
<thead>
<tr>
<th>STATE</th>
<th>NON-JUDICIAL FORECLOSURE</th>
<th>JUDICIAL FORECLOSURE</th>
<th>BANKRUPTCY CLEARANCE</th>
<th>POSSESSORY ACTION</th>
<th>DEED-IN-LIEU</th>
</tr>
</thead>
<tbody>
<tr>
<td>SC</td>
<td>$500</td>
<td>$820</td>
<td>$485</td>
<td>$3,000</td>
<td>$600</td>
</tr>
<tr>
<td>SD</td>
<td>$1,150</td>
<td>$1,150</td>
<td>$925</td>
<td>$2,000</td>
<td>$400</td>
</tr>
<tr>
<td>TN</td>
<td>$400</td>
<td>$950</td>
<td>$375</td>
<td>$2,000</td>
<td>$400</td>
</tr>
<tr>
<td>TX</td>
<td>$400</td>
<td>$900</td>
<td>$375</td>
<td>$2,000</td>
<td>$400</td>
</tr>
<tr>
<td>UT</td>
<td>$400</td>
<td>$950</td>
<td>$375</td>
<td>$2,000</td>
<td>$400</td>
</tr>
<tr>
<td>VA</td>
<td>$1,250</td>
<td>$1,500</td>
<td>$925</td>
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<td>$400</td>
</tr>
<tr>
<td>WI</td>
<td>$1,000</td>
<td>$1,000</td>
<td>$300</td>
<td>$2,000</td>
<td>$400</td>
</tr>
<tr>
<td>WV</td>
<td>$1,200</td>
<td>$2,000</td>
<td>$375</td>
<td>$2,000</td>
<td>$400</td>
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<tr>
<td>WY</td>
<td>$1,200</td>
<td>$2,000</td>
<td>$375</td>
<td>$2,000</td>
<td>$400</td>
</tr>
</tbody>
</table>

### Footnotes:

1. The fee covers the combined attorney’s and notary’s fees.
2. This fee applies to some completed foreclosures. If the mortgage loan is restructured, the maximum fee is the amount allowed under applicable law, not to exceed $725 for reinstatements after recording the Notice of Default and before making the Notice of Sale. If restructurings after making the Notice of Sale but before the Trustee’s sale, foreclosure orders a Foreclosure by Sale, the fee will be $1,150.
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 (for statutory fee).
4. The fee applies to Non-Judicial 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 $2,500, includes reimbursement of any fee for the attorney’s coordinate of title.
5. The fee includes the $350 of foreclosure costs, as determined by summary judgment, includes the attorney’s fee, the notary’s fee, and others commission (for statutory fee).
6. In addition to the allowable foreclosure fee, an attorney’s fee of up to $200 is allowed for the services of a non-licensed, unlicensed, or non-attorney to be performed by the attorney and approved by the court.
7. The fee increases to $1,150 for a non-judicial foreclosure for a case in which the attorney provides services for proceedings subsequent to the notice of foreclosure. A fee of $3,500 will be permitted for judicial foreclosure in locations other than Nassau County.
8. The fee includes the notary’s fee. An additional fee of $250 is allowed for an attorney court appearance for a non-judicial foreclosure.
9. This fee relates to the exercise of the power of sale under a deed of trust. [Reserved]
10. The fee applies to foreclosures other than those conducted in New York City and Long Island. A fee of $3,400 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). The allowable fee is $3,000, or $1,250 if judgment is obtained via uncontested trial. For judicial foreclosures in the city of New York and on Long Island, the allowable fee is $3,000 or $1,250 if judgment is obtained via uncontested trial.
(11) The allowable fee for foreclosures in Florida, where judgment is obtained as a result of an uncontested trial, is established at $3,250. 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, $350 is allowed for the notary fee.

(12) When a receiver requests reimbursement from USDA for a fee amount based on specified conditions contained in a footnote above, the reciever'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's fee varies based on the chapter under which the bankruptcy action is filed.

- For Chapter 7 bankruptcies, the maximum allowable fee is $6,901.75.
  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 $720
  2. Motion for Relief is $650

- For Chapter 12, 13, and 15 bankruptcies, the maximum allowable fee is $42,9100.
  1. Proof of Claim Preparation & Plan Review is $750
  2. Objection to Plan is $500
  3. Motion for Relief is $550

- For Chapter 13 bankruptcies, the maximum allowable fee is $2,850.
  1. Proof of Claim Preparation & Plan Review is $500
  2. Motion for Relief is $500
  3. Motion for Relief is $500
  4. Payment Change Notification (if needed) is $50
  5. Notice of Fees, Expenses and Charges is $100
  6. Proof of Claim Preparation & Plan Review is $500
  7. Response to Motion for Relief Notice is $50 (agreed) $200 (objection)

NEW: Footnotes have been updated with additional guidance, dates, fees, etc.
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 is 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 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 44.95 percent of the liquidated appraisal 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 44.95 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 and 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

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.