



SINGLE FAMILY HOUSING GUARANTEED LOAN PROGRAM 7 CFR PART 3555 AND HB-1-3555 REVISIONS

Effective Date: June 2, 2016

3555.101(d): Refinance

(d) * * *

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(i) Three options for refinancing may be offered: Streamlined, non-streamlined, and streamlined-assist. Other than provided in this paragraph, no cash out is permitted for any refinance. Documentation costs and underwriting requirements of subparts D, E, and F of this part apply to streamlined and non-streamlined refinances.

(A) Lenders may offer a streamlined refinance for existing Section 502 Guaranteed loans, which does not require a new appraisal. The lender will pay off the balance of the existing Section 502 Guaranteed loan.

(B) Lenders may offer non-streamlined refinancing for existing Section 502 Guaranteed or Direct loans, which requires a new and current market value appraisal. The amount of the new loan must be supported by sufficient equity in the property as determined by an appraisal. The appraised value may be exceeded by the amount of up-front guarantee fee financed, if any, when using the non-streamlined option.

3555.101: Loan purposes

d. Refinancing

NEW: Three refinance options are available!

(A): Streamlined

(B): Non-streamlined

(C): **NEW:** Streamlined-assist

The Rural Refinance Pilot is now the “streamlined-assist” refinance. It is available to all eligible direct and guaranteed loan borrowers. Refer to 3555.101(d)(3)(C) and HB 6.2 D 3 for additional details.

(C) A streamlined-assist refinance loan is a special refinance option available to existing Section 502 direct and guaranteed loan borrowers. Applicants must meet the income eligibility requirements of § 3555.151(a), and must not have had any defaults during the 12 month period prior to the refinance loan application. There are no debt-to-income calculation requirements, no credit report requirements, no property inspection requirements, and no loan-to-value requirements. There is no appraisal requirement except for Section 502 direct loan borrowers who have received a subsidy.

(ii) The interest rate of the new loan must be fixed and must not exceed the interest rate of the original loan being refinanced.

* * * * *

(iv) The loan security must include the same property as the original loan and be owned and occupied by the borrowers as their principal residence.

3555.101: Loan purposes

d. Refinancing

NEW: (C): Requirements of a streamlined-assist refinance loan are outlined.

- Sole credit requirement: previous 12 months of mortgage paid timely
- No debt to income calculations
- No credit report required, but it may be utilized to support timely mortgage payment. No additional credit review is required.
- No property inspections
- No maximum LTV, eligible loan purposes may be included in the new loan as applicable
- No appraisal is required. Exception: Direct loan borrowers that have received subsidy payments during the term of their loan require an appraisal.

Refer to HB 6.2 D 3 for additional details.

3555.101: Loan purposes

d. Refinancing

NEW: 3555.101(d)(ii): The new interest rate must be fixed and not exceed the rate of the loan being refinanced. 3555.104(a) for maximum interest rate applies.

Deleted: The requirement for the interest rate of a refinance loan to be at least 100 basis points below the original interest rate.

Renumbered: Due to the additions to 3555.101(d), some items have their identifying citation changed.

Refer to HB 6.2 D for additional details.

3555.108: Full faith and credit

(d) *Indemnification.* The loan note guarantee will remain in effect for any holder of the loan who acquired it from an originating lender. If the Agency determines that a lender did not originate a loan in accordance with the requirements in this part, and the Agency pays a claim under the loan guarantee, the Agency may revoke the originating lender's eligibility status in accordance with subpart B of this part and may also require the originating lender:

(1) To indemnify the Agency for the loss, if the default leading to the payment of loss claim occurred within five (5) years of loan closing, when one or more of the following conditions is satisfied:

(i) The originating lender utilized unsupported data or omitted material information when submitting the request for a conditional commitment to the Agency;

(ii) The originating lender failed to properly verify and analyze the applicant's income and employment history in accordance with Agency guidelines;

(iii) The originating lender failed to address property deficiencies identified in the appraisal or inspection report that affect the health and safety of the occupants or the structural integrity of the property;

(iv) The originating lender used an appraiser that was not properly licensed or certified, as appropriate, to make residential real estate appraisal in accordance with § 3555.103(a); or,

(2) To indemnify the Agency for the loss regardless of how long ago the loan closed or the default occurred, if the Agency determines that fraud or misrepresentation was involved with the origination of the loan.

(3) In addition, the Agency may use any other legal remedies it has against the originating lender.

3555.108: Full faith and credit

d. Indemnification

NEW: Clarification that the loan note guarantee will be valid for investors that acquire loans from originating lenders.

NEW: 3555.108(d)(1): Indemnification timeframes have been extended up to five years (60 months) from loan closing due to unsupported/omitted information, improper income/employment analysis, unaddressed property deficiencies, or use of an ineligible appraiser.

NEW: 3555.108(d)(3): USDA may use additional legal remedies against the originating lender.

3555.109: Qualified mortgage

A qualified mortgage is a guaranteed loan meeting the requirements of this part and applicable Agency guidance, as well as the requirements in 12 CFR 1026.43(e)(2)(i) through (iii) and 12 CFR 1026.43(e)(3). An extension of credit made pursuant to a program administered by a State Housing Finance Agency is exempt from this requirement as defined in 12 CFR 1026.43(a)(3)(iv). Lenders will be allowed to cure unintentional errors and retain the qualified mortgage status if the conditions set in 12 CFR 1026.31(h) are met.

NEW: 3555.109: Qualified mortgage

NEW: USDA has added guidance to define a guaranteed loan that meets qualified mortgage requirements.

HB-1-3555 Chapter 6: Loan Purposes

6.1 INTRODUCTION



SFHGLP loan funds can be used to acquire new or existing housing that will be the applicant's principal residence, and with some restrictions, to pay costs associated with such a purchase. ~~However, there are restrictions on the use of guaranteed loan funds.~~ This section describes the purposes and restrictions and discusses when supplemental loans are permitted. The lender is responsible for ensuring that loan funds are used only for eligible purposes.

6.1 Introduction

Clarification: Small revision. No change in guidance.

B. Repairs and Rehabilitation

If repairs or rehabilitation are involved, the lender must not request that the loan guarantee be issued until all work is complete. ~~with-T the exception to this rule is completion of minor exterior work or minor-minor interior work when funds have been escrowed in accordance with Chapter 12 of this Handbook.~~ Additional requirements for repairs and rehabilitation are addressed in Chapter 12 of this Handbook.

6.2: Eligible Loan Purposes

B. Repairs and Rehabilitation

Clarification: The loan note guarantee may be issued if only minor exterior/interior work remains. Refer to HB Chapter 12 for additional guidance.

- **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 may be financed as described in Paragraph 6.3 of this Chapter. The SFHGLP up-front guarantee and annual fee ~~is~~ are not included in the lender fees and charges calculation.

6.2: Eligible Loan Purposes

C. Reasonable and Customary Expenses Associated with Purchasing a Dwelling

Clarification: Included "may be financed" for discount points, as allowed in HB 6.3. Corrected language from "is" to "are" regarding the upfront guarantee and annual fee.

- **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. Seller contributions (or other interested parties) are limited to six percent of the loan amount and must represent an eligible loan purpose in accordance with this Paragraph.~~ Closings costs and/or prepaid items paid by the lender through premium pricing are not included in the seller contribution limitation. In addition, closing costs, including lender fees, may not exceed 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. The approved lender is responsible to ensure applicable limitations and eligible loan purposes are met.

1. Construction Financing

~~A refinance~~Refinancing is allowed for "take out"/~~interim purposes when~~ financing to construct a new dwelling, or to improve an existing dwelling. The guarantee fee structure for this type of financing will be considered a purchase loan.

- ~~This type of transaction is considered a two-closing transaction.~~
- This transaction utilizes two separate loan closings with two separate sets of legal documents.
- A modification may not be used to update the original note. A new note will be signed by the borrowers.
- The first transaction ~~will is to~~ obtain the interim construction financing. The second closing obtains the permanent financing when improvements are completed.
- The lender is responsible ~~to ensure for assuring that~~ all costs involved in both transactions represent an eligible loan purpose in accordance with Section 6.2 of this Chapter. Documentation could represent a draw and disbursement ledger validating the builder's price to build, cost of the land (if applicable), closing costs and any out-of-pocket expenses (supported by canceled checks, paid receipts for construction costs) paid by the applicants.
- ~~The construction period is limited to no greater than one 12-months period.~~ The 12-month period must have occurred directly prior to permanent financing.
- The borrower must meet credit requirements as outlined in Chapter 10 of this Handbook.
- ~~Credit document standard guidelines apply.~~
- New construction documentation (certified plans and specifications, inspections and warranty) must be obtained as outlined in Chapter 12 applies.
- The Loan Note Guarantee will be issued on the second transaction, on the permanent financing, once construction is complete.

6.2: Eligible Loan Purposes

C. Reasonable and Customary Expenses Associated with Purchasing a Dwelling

Clarification: Language was condensed. No change in guidance.

Clarification: The approved lender is responsible to ensure applicable limitations and eligible loan purposes.

6.2: Eligible Loan Purposes

D. Refinance

1. Construction Financing

Clarification: Minor clarifications were made to this section. No change in guidance.

2. Site Without a Dwelling

In the case of loans for a building site without a dwelling, a refinance is permitted if:

- The debt to be refinanced was incurred for the sole purpose of purchasing the site;
- The applicant is unable to acquire adequate housing without a refinance;
- An appropriate-eligible dwelling will be constructed on the site prior to issuance of the loan note guarantee; and
- The lender is responsible ~~to ensure~~~~for assuring that~~ all costs involved, in the construction financing, represent an eligible loan purpose in accordance with Section 6.2 of this Chapter. Documentation could represent a draw and disbursement ledger validating the builder's price to build, cost of the land, closing costs and any out-of-pocket expenses (supported by canceled checks, paid receipts for construction costs) paid by the applicants.
- The construction period is limited to ~~one~~ 12-months ~~period~~. The 12-month period must have occurred directly prior to permanent financing.
- The borrower must meet credit requirements as outlined in Chapter 10 of this Handbook.
- ~~Credit document standard guidelines apply.~~
- New construction documentation (certified plans and specifications, inspections and warranty) must be obtained as outlined in Chapter 12 applies.
- This transaction will represent a two-closing transaction with two sets of legal documents.
- A modification may not be used to update the original note.
- The guarantee fee structure for this type of financing will be considered a purchase transaction loan.

See Section 7 of Chapter 12 for combination construction to permanent financing involving a single-closing transaction.

3. Existing Section 502 Direct and Guaranteed Loans

The intent of the refinance feature of the SFHGLP is to give existing guaranteed and direct SFHGLP and Direct borrowers, with satisfactory payment histories, the opportunity to benefit from a lower interest rate and increase their ability to be successful homeowners. The interest rate of the new guaranteed loan ~~to be financed~~ must not exceed the interest ~~be 100 basis points below the~~ rate of the existing loan ~~to be that will be~~ refinanced. Applicants must meet all existing eligibility requirements as outlined in this Handbook except where noted. ~~An approved lender may refinance an existing guaranteed borrower with a Section 502 Guaranteed loan. Funds will be made available on a first come, first serve basis for refinance requests meeting application and approval criteria. The refinance guarantee fee structure will be applicable to this type of financing. The Agency should give applicants with existing USDA loans, in good standing, every consideration to accommodate a refinance request. SFHGLP refinance loans may not be used as a loss mitigation tool for loans that are are presently not non-performing, or for borrowers who are not current on their existing USDA loan. Delinquent guaranteed loans should be reviewed and evaluated with applicable loan servicing and loss mitigation guidelines. Attachment 6A provides a brief reference to the following refinance options available in this Chapter.~~

6.2: Eligible Loan Purposes

D. Refinance

2. Site Without a Dwelling

Clarification: Minor clarifications were made to this section. No change in guidance.

6.2: Eligible Loan Purposes

D. Refinance

3. Existing Section 502 Direct and Guaranteed Loans

Clarification: Direct loans have been included in HB references.

NEW: The new interest rate must not exceed the existing interest rate of the loan being refinanced.

Deleted: Attachment 6-A. The information in this attachment was already included in the HB chapter.

ThreeTwo refinance options for refinancing are available:

Non-streamlined refinance.

- The non-streamlined refinance requires a new appraisal. A new appraisal is required. option requires an appraisal.
- The maximum loan amount may not exceed the new appraised value, with the exception of the upfront guarantee fee. The following items are eligible to be financed up to the new appraised value: the principal and interest balance of the existing loan (principal and interest), reasonable and customary closing costs, and funds necessary to establish a new tax and insurance escrow account.
- and subsidy recapture (if applicable). Direct loan borrowers that owe subsidy recapture have the option of financing or deferring the amount of recapture that is due. may include the amount of recapture due. If the borrower choose to finance the subsidy recapture, they may be eligible for a discount on the amount that is due. If the borrower may be eligible for a discount if they choose to finance the amount due due if finance the balance due and receive a 25% discount. If the direct borrower elects to subordinate defer their recapture or is unable to include this subsidy within the new appraised value, a second lien will apply and no discount will be available. The upfront guarantee fee may be financed above the new appraised value. Lenders offering the non-streamlined refinance option may include in the loan the principal and interest of the existing loan, closing costs, lender fees and the guarantee fee amount to the extent sufficient equity in the property exists, as determined by an appraisal. The appraised value may be exceeded only to the amount financing represents the guarantee fee.
- Additional borrowers may be added to the new guaranteed loan. Existing borrowers on the current mortgage note may be removed, however, A at least one of the original borrowers must be an applicant for the new refinance loan.
- The existing loan must have closed 12 months prior to request for a refinance and must be current for the 180 day period prior to the Agency's receipt of a conditional commitment request.
- A current credit report is required. The borrower must meet credit requirements as outlined in Chapter 10 of this Handbook.
- Monthly housing expense to income ratio may not exceed 29 percent. The monthly total debt to income ratio may not exceed 41 percent. Lenders may request a debt ratio exception when documentation of strong compensating factors in accordance with Chapter 11 of this Handbook are met. A satisfactory payment history for the existing mortgage is a strong compensating factor.
- The Guaranteed Underwriting System (GUS) may be utilized to when requesting a non-streamlined refinance.

6.2: Eligible Loan Purposes

D. Refinance

3. Existing Section 502 Direct and Guaranteed Loans

Non-streamlined refinance

NEW: Three refinance options are available. Each one is individually reviewed in the HB.

Clarification: The HB has been revised to explain each refinance option including specific requirements that apply.

Streamlined refinance.

- ~~— A new appraisal is not required for existing guaranteed loan borrowers. A direct loan borrower may will be required to obtain a new appraisal if they have received payment subsidy in order to determine the amount of subsidy recapture due. If subsidy recapture is due, the amount cannot be included in the newly refinanced loan. — Lenders may offer a streamlined refinance without obtaining a new appraisal.~~
- ~~Subsidy recapture must be paid with other funds or subordinated to the new guaranteed loan.~~
- ~~— Direct loan borrowers that have never received subsidy are eligible with no appraisal. Direct loan borrowers that have received subsidy payments will require a new appraisal to determine if any recapture is due. If no recapture is due, these direct borrowers may proceed with a streamlined refinance.~~
- The maximum loan amount may not exceed the original loan amount at the time of purchase (i.e. original purchase price). The following items are eligible to be financed up to the original purchase price: the principal and interest balance of the existing loan (principal and interest) (principal and interest), current interest charges due, and a reasonable fee for re conveyance of the existing USDA mortgage. The upfront guarantee fee may be financed above the original purchase price.
- ~~— Direct loan borrowers that have never received subsidy are eligible with no appraisal. Direct loan borrowers that have received subsidy payments will require a new appraisal to determine if any recapture is due. If no recapture is due, these direct borrowers may proceed with a streamlined refinance.~~
- Additional borrowers may be added to the new guaranteed loan. Existing borrowers on the current mortgage note may be removed, however, —At least one of the original borrowers must be an applicant for the remain on the -new refinance loan.
- The existing loan must have closed 12 months prior to request for a refinance and must be current for the 180 day period prior to the Agency's receipt of a conditional commitment request.
- —The borrower must meet credit requirements as outlined in Chapter 10 of this Handbook. A current credit report is required.
- Monthly housing expense to income ratio may not exceed 29 percent. The monthly total debt to income ratio may not exceed 41 percent. Lenders may request a debt ratio exception when documentation of strong compensating factors in accordance with Chapter 11 of this Handbook are is met. A satisfactory payment history for the existing mortgage is a strong compensating factor.
- The Guaranteed Underwriting System (GUS)-GUS may be utilized to request a streamlined refinance.
- ~~— Subsidy recapture due for direct loan borrowers is not eligible to be included in the loan. Subsidy recapture must be paid in full or subordinated to the new guaranteed loan.~~

6.2: Eligible Loan Purposes

D. Refinance

3. Existing Section 502 Direct and Guaranteed Loans Streamlined refinance

Clarification: The HB has been revised to explain each refinance option including specific requirements that apply.

~~—For streamlined refinancing of a Section 502 Direct borrower who has received subsidy an appraisal will be required for the purpose of determining subsidy recapture. The refinance loan amount may not exceed the original loan amount (i.e. the original purchase loan amount will establish the maximum loan amount of the refinance transaction). All other costs, documentation and underwriting requirements remain consistent with a purchase guarantee, unless otherwise noted in this Section. With this option, the lender will refinance the balance of the existing Section 502 Guaranteed or Direct loan. The balance may represent the outstanding principal balance, current interest charges due along with a reasonable and customary fee for reconveyance of the existing USDA loan and any amount of the upfront guarantee fee to be financed into the loan. Delinquent interest, closing costs or lender fees may not be financed into the new loan with this option. This option is not available for Section 502 Direct loans that have received any payment subsidy during the term of the original loan. GUS may be utilized when requesting a streamlined refinance. The Agency should give applicants with existing SFHGLP loans, in good standing, every consideration when applying for a SFHGLP refinance loan. SFHGLP refinance loans may not be used as a loss mitigation measure for loans that are presently not performing or for borrowers who are not remaining current on their existing SFHGLP loan. Delinquent SFHGLP loans should be reviewed and evaluated using applicable loan servicing and loss mitigation guidelines.~~

6.2: Eligible Loan Purposes

D. Refinance

3. Existing Section 502 Direct and Guaranteed Loans Streamlined refinance

Deleted: This section of the current HB was deleted because it was inserted under the applicable refinance option.

Streamlined-assist refinance:

- A new appraisal is not required for existing guaranteed loan borrowers. A direct loan borrower will be required to obtain a new appraisal if they have received payment subsidy to determine the amount of subsidy recapture due. If subsidy recapture is due, the amount cannot be included in the newly refinanced loan. Subsidy recapture must be paid with other funds or subordinated to the new guaranteed loan.
- No new Lenders may offer a streamlined-assist refinance without obtaining a new appraisal is required for existing guaranteed loan borrowers. A direct loan borrower may be required to obtain a new appraisal.
- Direct loan borrowers that have never received subsidy are eligible with no appraisal. Direct loan borrowers that have received subsidy payments will require a new appraisal to determine if any recapture is due.
- The maximum loan amount may include the principal and interest balance of the existing loan (principal and interest), eligible loan closing costs, and funds necessary to establish a new tax and insurance escrow account, and the upfront guarantee fee.
- The borrower must receive a tangible benefit to refinance under this option. A tangible benefit is defined as a \$50 or greater reduction in their principal, interest, taxes and insurances (PITI) and interest payment (P&I) together with which includes the aAnnual Fee payment on the new guaranteed loan when compared to the existing PITI P&I payment together with any including the aAnnual Fee payment.
- The existing loan must have closed 12 months prior to request for a refinance.
- The borrower is not required to meet all of the credit requirements as outlined in Chapter 10 of this Handbook. However,
- The existing mortgage must be paid as agreed for the 12 months prior to application for a streamlined-assist refinance. Lenders may verify mortgage payment history through: 1.) A Verification of Mortgage (VOM) obtained directly from the servicing lender or 2.) The lender may submit a credit report to reflect satisfactory mortgage payment. If a When a credit report is ordered to determine timely mortgage payments, other utilized only the mortgage repayment is reviewed. Additional ecredit accounts are will not be reviewed.
- Borrowers may be added but not removed from the current loan. Additional borrowers may be added to the new guaranteed loan. At Existing borrowers on the current mortgage note may not be deleted unless they are deceased or to remove, and only a deceased borrower on the current mortgage may be removed.
- A credit report is not required unless it is utilized to support mortgage repayment for the previous 12 months.
- Debt to income ratio calculations are not applicable. The borrower is not required to meet the repayment provisions as outlined in Chapter 9 of this Handbook.
- A streamlined-assist refinance must be manually underwritten. The Guaranteed Underwriting System (GUS) GUS may not be utilized and all loans must be manually underwritten.

6.2: Eligible Loan Purposes

D. Refinance

3. Existing Section 502 Direct and Guaranteed Loans Streamlined-assist refinance

NEW: The Rural Refinance Pilot loan is now the streamlined-assist refinance option. This refinance option is available to all eligible direct and guaranteed loan borrowers.

Features of the streamlined-assist:

- No appraisal required for guaranteed borrowers. Appraisal required only for direct borrowers if subsidy was received.
- Maximum loan amount may include principal and interest of existing loan and eligible closing costs as applicable in 3555.101(b).
- Net tangible benefit: New PITI must achieve a \$50 or greater reduction to existing PITI (including annual fee).
- Seasoning: Loan must have closed 12 months prior to request for refinance.
- Sole credit requirement: Existing loan must be paid as agreed for 12 months prior loan application.
- New borrowers may be added to the new refinance loan, but existing borrowers may not be removed.
- GUS may not be used to process a streamlined-assist refinance.

Obtaining a “Statement of Loan Balance” letter for direct loan borrowers:

Lenders may determine an applicant has direct loan when the credit report reflects “USDA” as the mortgage creditor, or the applicant informs the lender they applied and received their mortgage loan through a USDA Service Center. Direct loans are serviced by the Centralized Servicing Center (CSC) located in St. Louis, Missouri. Obtaining a “Statement of Loan Balance” letter will assist lenders to determine if subsidy recapture is due.

1. Submit a request on lender letterhead suitable for fax transmission which includes the borrower’s name, account number, address, and the date for which the payoff should be valid. If available at the time of payoff request, also include a copy of the good faith Loan Estimate or estimated Closing cost Disclosure statement and a recent appraisal of the direct loan property. If a current appraisal is not remitted at the time of the loan payoff request, the “Statement of Loan Balance” will reflect the maximum amount of subsidy recapture that may be due. When a current appraisal is submitted to the CSC, the payoff will reflect the actual amount of subsidy recapture due. The fax number for requests is Requests can be faxed to (314)457-4433.

2. The “Statement of Loan Balance” will also include instructions for the lender to follow regardless of information submitted at the time of payoff request.

The CSC will not provide payoff quotes verbally or over the phone. The CSC also assists lenders with subordination agreements when direct loan borrowers elect to subordinate subsidy recapture due. Lenders and direct loan borrowers that have questions regarding a direct loan account may contact the CSC at (800) 414-1226.

6.2: Eligible Loan Purposes

D. Refinance

3. Existing Section 502 Direct and Guaranteed Loans

Streamlined-assist refinance

NEW: The instructions to obtain a statement of loan balance for direct borrowers that received subsidy during their loan is added to the HB.

a. Loan Terms and Conditions

- ~~The term of the loan must be~~ Loan terms are fixed at 30 years.
- The interest rate of the new loan must be ~~a fixed rate and not exceed the interest rate of the loan refinanced. The rate of the new loan must not exceed the interest rate of be at least 100 basis points below the original rate of the loan being refinanced.~~
- ~~Buydown accounts are not permitted.~~
- The loan security must include the same property as the original loan. The security property must be owned and occupied by the applicants as their principal residence.
- Total adjusted annual income for the household cannot exceed the moderate level for the area.
- ~~An approved SFHGLP lender must request make the refinance loan.~~
- ~~The maximum loan amount, for a non-streamlined refinance option, cannot exceed the balance of the loan being refinanced, reasonable and customary closing costs, including funds necessary to establish a new tax and insurance escrow accounts up to the amount of the market value established by the appraisal, plus the guarantee fee.~~
- ~~The maximum loan amount, for the stream-lined refinance option, cannot exceed the original amount of the loan to be refinanced. This option includes financing the principal amount of the loan be refinanced, current accrued interest, plus a reasonable customary reconveyance fee plus the guarantee fee up to the original purchase loan t amount.~~
- ~~No new appraisal will be required for streamlined transactions as described in this section.~~
- ~~A new and current market value appraisal is required when the non-streamlined refinance option is utilized.~~
- Subordinate financing such as home equity seconds and down payment assistance “silent” seconds cannot be included in the new loan amount. The SFHGLP **may not** be used to refinance a leveraged loan from a non-Rural Development source that was closed simultaneously with a Section 502 Direct Loan. Any existing secondary financing must be subordinate to the new first lien.
- Applicants are not eligible to receive ~~“cash out”~~ “cash out” from the refinance transaction. However, for non-streamlined and streamlined-assist refinance loans applicants may receive reimbursement from loan proceeds at settlement for their personal funds advanced for eligible loan purposes that are part of the refinance transaction, such as an appraisal fee or credit report fee. At loan closing, a nominal amount of “cash out” to the applicants may occasionally result due to final escrow and interest calculations.
- Unpaid fees, ~~delinquent past due interest, and other such as~~ late fees/penalties due the servicer; ~~are not eligible to cannot be~~ included in the new loan amount.
- Properties located in areas since determined by the Agency to be non-rural are eligible. SFHGLP refinance loans are permissible for properties in areas that have been determined to be non-rural since the existing loan was made.

6.2: Eligible Loan Purposes

D. Refinance

3. Existing Section 502 Direct and Guaranteed Loans

a. Loan Terms and Conditions

Each bullet listed is applicable to all refinance options unless otherwise indicated.

NEW: The interest rate must not exceed the interest rate of the loan refinanced. The required 100 basis point reduction has been deleted.

Deleted: Buydown accounts do not negatively affect the loan, therefore they may be eligible.

Deleted: Items applicable to individual refinance types have been deleted from this section and added under the appropriate refinance option.

Clarification: Minor clarifications to condense language were made to this section. No change in guidance.

b. Loan Application Documentation

The following items must be addressed or documented in the lender's loan file in order for the application to be considered complete:

- ~~A Uniform Residential Loan Application~~ Signed copy of the loan application (URLA).
- ~~A credit report, if as applicable. Lender to obtain a Current credit report for a non-streamlined or a streamlined refinance.~~
- ~~Explanation for Any late mortgage payments within the past 36 months on the existing SFHGLP loan. Late payments made within specified guidelines may render the applicant ineligible. must be addressed by the lender and taken into consideration in the underwriting decision.~~
- Lender verification of applicant's current employment and income.
- Lender verification that the total adjusted income for the household does not exceed the current moderate income level established for the area.
- Lender's underwriting analysis, including applicant's qualifying ratios for the loan being refinanced, as applicable.
- ~~As part of the non-streamline and streamline refinance options The monthly housing expense to income ratio may not exceed 29 percent and the total debt to income ratio may not exceed 41 percent. However, lenders may request a waiver of these ratio requirements with documentation of strong compensating factors in accordance with Chapter 11 of this Handbook. A satisfactory payment history for the existing mortgage is considered a strong compensating factor.~~
- ~~For the streamlined assist refinance option debt to income ratio calculations are not required; therefore debt ration waiver requests will not be necessary.~~
- Applicants and lenders will sign *Form RD 3555-21, "Request for Single Family Housing Loan Guarantee."*
- A complete Uniform Residential Appraisal Report (URAR), as applicable. ~~will be required for the non-streamlined refinance option in cases as defined in this section. This is considered a non-streamlined refinance option.~~
- Property inspections as outlined in Chapter 12 of this Handbook are not required. ~~necessary. Although Rural Development does not require repairs to be completed for refinance transactions, hHowever,~~ the lender may require completion of repairs as a condition of loan approval. Expenses related to property inspections and repairs may not be financed into the new loan amount.

6.2: Eligible Loan Purposes

D. Refinance

3. Existing Section 502 Direct and Guaranteed Loans

b. Loan Application Documentation

Each bullet listed is applicable to all refinance options unless otherwise indicated.

Deleted: Items applicable to individual refinance types have been deleted from this section and added under the appropriate refinance option.

c. Submission Process

- **Lender:** After underwriting and approving of the loan, the application package will be the lender will submitted the loan application package to the for Agency for review in accordance with Chapter 15 of this Handbook. The Agency will review applications to determine if all program requirements have been met.
- **Agency:** Funding for the refinance type will be requested by the Agency ~~or national office~~ through the usual channels outlined in Chapter 14 of this Handbook.
- ~~Use of SFHGLP funds for the sole purpose of refinancing an existing 502 guaranteed loan is considered a servicing action and does not require the completion of Form RD 1940-22, "Environmental Checklist for Categorical Exclusions" a categorical exclusion under RD Instruction 1940-G.~~
- ~~The completion of Form RD 1940-22, "Environmental Checklist for Categorical Exclusions" will typically not be required as refinance transactions will not likely have the potential to adversely affect environmentally sensitive land uses or resources. However, in extraordinary circumstances, the Agency loan approval official may be aware of an environmentally sensitive situation, such as reports of chemical spills in the area or hazardous material waste sites that have been exist developed in the community, that This may impact the refinance application and require further analysis as prescribed in RD Instruction 1940-G.~~
- The Agency will establish an application in GLS. ~~Both s~~Streamlined and non-streamlined refinance transactions ~~developed with the assistance~~submitted through ~~of~~ GUS will be uploaded to GLS from the USDA Administration page in GUS.
- The Agency will code refinances with the appropriate type of assistance code (TOA).
- ~~Streamlined refinances will utilize the original loan amount established in GLS. The maximum loan amount cannot exceed the original purchase loan.~~

6.2: Eligible Loan Purposes

D. Refinance

3. Existing Section 502 Direct and Guaranteed Loans

c. Submission Process

Each bullet listed is applicable to all refinance options unless otherwise indicated.

Deleted: Items applicable to individual refinance types have been deleted from this section and added under the appropriate refinance option.

- For streamlined-assist, due to the unique features of this option, the additional processing steps need to be completed by the field staff:

1. Deduct the upfront guarantee fee from the total loan amount and enter that figure as the appraised value in GLS
2. Review the previous 12-month mortgage payment history. If a credit report is submitted, only review the 12-month mortgage payment history. If the mortgage account is currently delinquent or has been reported delinquent in the previous 12 months, the borrower is not eligible. Agency staff should use the "Borrower ID" with GLS Report "GLSST01: Status of a GRH Loan Account" to ensure the loan is currently active and not in default
3. Enter 1 in the "FICO Score" data field when processing a Pilot application in GLS
4. Enter the repayment income calculation in GLS, but do not include any "Additional Liabilities" amounts. If the new mortgage payment results in ratios above 29 and/or 41 percent, check the box that indicates a debt ratio waiver has been issued by the Agency.
5. If the new streamlined-assist loan amount exceeds the original loan amount necessary, enter the new loan amount "Loan Amount" into the "Original USDA Purchase Loan Amt." field in GLS (Loan Purposes section). (This is a system override to allow for the loan amount provisions of the streamlined-assist loans).
6. On the "Update Application" GLS loan screen under "Agency Information," select the "Servicing Office" named "Rural Refi Pilot." In the "Agency Notes" section enter a note to identify this loan as a "Rural Refinance Pilot Loan." These steps will identify the loan as part of this pilot in the event of a loan review.

d. Closing Costs and Lender Fees

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

e. Up-Front Guarantee Fee

- The guarantee fee for SFHGLP refinances will be established by the Agency. The entire up-front guarantee fee may be financed into the new SFHGLP refinance loan, as described above depending on the refinance feature (non-streamlined vs. streamlined). The amount of the up-front fee will be published in Exhibit K, of RD Instruction 440.1, available in any Rural Development office or on the Rural Development website as follows:
<http://www.rd.usda.gov/publications/regulations-guidelines>
http://www.rurdev.usda.gov/rd_instructions.html

6.2: Eligible Loan Purposes

D. Refinance

3. Existing Section 502 Direct and Guaranteed Loans

a. Submission Process

NEW: Instructions for USDA staff to process streamlined-assist loans in the internal Guaranteed Loan System (GLS) are included.

6.2: Eligible Loan Purposes

D. Refinance

3. Existing Section 502 Direct and Guaranteed Loans

b. Closing Costs and Lender Fees

Clarification: Discount points eligible to be financed must permanently buydown the interest rate.

6.2: Eligible Loan Purposes

D. Refinance

3. Existing Section 502 Direct and Guaranteed Loans

c. Upfront Guarantee Fee

Clarification: The upfront guarantee fee is an eligible loan purpose for every refinance option. An updated weblink is provided to access RD Instruction 440.1, Exhibit K.

f. Annual Fee

- An annual fee may be charged by the Agency for refinance transactions. The amount of annual fee will be established by the Agency. Refer to Exhibit K of RD Instruction 440.1, available in any Rural Development office or on the Rural Development website as follows: <http://www.rd.usda.gov/publications/regulations-guidelines>. http://www.rurdev.usda.gov/rd_instructions.html

g. Loan Note Guarantee Issuance Requirements

- Once the lender has closed the loan, closing documentation should be submitted to the Agency. Provided the lender's loan closing documentation is adequate, and the loan documentation represents the loan was closed in accordance with the terms of the conditional commitment, a Loan Note Guarantee will be issued. The Agency will process loan closings for SFHGLP refinance loans using the same procedures used for SFHGLP purchase loans. Once the Agency's loan closing has processed and the new Loan Note Guarantee has been issued, the Agency should notify the Finance Office to terminate the original guarantee due to the loan being refinanced through the SFHGLP. Notifications should be made to the [National Finance and Accounting Operations Center Office, Guaranteed Loan Branch Housing Services Branch](#), Attn: FC-350 by Fax at (314) 457-4279 or by email at NFAOC.HSB@STL.USDA.GOV, RD.DCFO.GLB@stl.usda.gov.

~~j. Refinance Product Matrix~~

- ~~Attachment 6-A of this Chapter outlines the refinance features of the SFHGLP. General eligibility, approval and delivery criteria are noted.~~

b. Recapture

As part of the direct loan refinance, arrangements must be made to either pay off or defer repayment of any subsidy recapture due. Any recapture amount owed as part of the 502 direct loan pay off may be included into the amount being financed with the SFHGLP loan subject to maximum loan of refinance. Alternatively, any 502 direct recapture amount owed at the time of refinance may be deferred if the recapture amount takes a lien position subordinate to the new SFHGLP loan. A 25-percent discount on recapture may be offered if the customer does not defer recapture or includes the recapture amount being refinanced with the SFHGLP loans.

- **Manufactured Homes.** Purchase of existing manufactured homes is not permitted, unless it is a [purchase refinance](#) of an existing Rural Development Section 502 direct loan or guarantee, as provided in Section 2 of Chapter 13 of this Handbook.

6.2: Eligible Loan Purposes

D. Refinance

3. Existing Section 502 Direct and Guaranteed Loans

f. Annual Fee

Clarification: An updated weblink is provided to access RD Instruction 440.1, Exhibit K.

6.2: Eligible Loan Purposes

D. Refinance

3. Existing Section 502 Direct and Guaranteed Loans

g. Loan Note Guarantee Issuance Requirements

Clarification: The Guaranteed Loan Branch title has been updated to "National Finance and Accounting Operations Center, Housing Services Branch." An updated email is also provided.

6.2: Eligible Loan Purposes

D. Refinance

3. Existing Section 502 Direct and Guaranteed Loans

j. Refinance Product Matrix

Deleted: Attachment 6-A has been removed from this HB chapter. All information contained in the attachment has been included in the appropriate refinance section.

6.2: Eligible Loan Purposes

D. Refinance

4. Existing Section 502 Direct Loans

b. Recapture

Deleted: The "25 percent" has been removed from the HB to accommodate any Agency adjustments.

6.3: Prohibited Loan Purposes

Clarification: Existing manufactured homes must be currently financed with a direct or guaranteed loan.

- **Seller contributions.** Seller or other interested party contributions towards closing costs in excess of six percentage points are prohibited. Closing costs and/or prepaid items paid by the lender by premium pricing are not included in the seller contribution limitation. Fees towards the applicant's cost to close such as real estate commission or other typical fees paid by the seller or other interested party under local, state law, or local custom are not considered in the maximum contribution calculation. Lenders are responsible to ensure this requirement is met.
- **Closing costs.** Closing costs, including lender fees, may not exceed three percent of the total loan amount, unless flexibility is provided through guidance published by the CFPB's [Ability to Repay and Qualified Mortgage \(ATR/AQM\) standards rule](#). The SFHGLP up-front guarantee fee and annual fee is not included in the three percent lender fee calculation. Lenders are responsible to ensure this requirement is met.

6.3 Prohibited Loan Purposes

Clarification: Lenders are responsible to ensure they abide within required limitations.

6.3: Prohibited Loan Purposes

Clarification: Ability to Repay and Qualified Mortgage reference is corrected.

Clarification: Lenders are responsible to ensure they abide within required limitations.

Chapter 4: Lender Responsibilities

4.1 INTRODUCTION

In addition to demonstrating the ability to make single-family residential loans successfully, lenders must operate responsibly on an ongoing basis and comply with all SFHGLP requirements. The Agency will provide notice of all program changes; however, the lender is responsible for staying up to date on all program policies and procedures and ensures that its staff is adequately trained. The Agency encourages lenders to attend or participate in training provided by the Agency or other approved methods, as outlined in Chapter 3 of this Handbook. For Agency provided training, any of the State Offices can arrange training for lenders and their staff members. New lenders who request participation in the SFHGLP by submitting *Form RD 3555-16* will be required to take training prior to approval by the Agency. Lenders are encouraged to register for automatic email notification regarding loan origination, servicing or automated underwriting updates. Lenders may register at:
<http://www.rdlist.sc.egov.usda.gov/listserv/mainervlet>.
https://public.govdelivery.com/accounts/USDARD/subscriber/topics?qs=USDARD_25.

A. Procedure

A SFHGLP loan may be sold only to an Agency-approved lender, Fannie Mae or Freddie Mac. The selling lender must report any guaranteed loan sale to the Agency by using *Form RD 3555-11*, "*Lender Record Change*", or electronically transmit the information. The notification of transfer of the loan(s) should be sent to the Rural Development Guaranteed Loan Branch in St. Louis as indicated on *Form RD 3555-11*. If the loan is sold to a party not approved to participate in the SFHGLP, ~~the Agency will terminate~~ the loan note guarantee will be considered invalid for the non-approved lender.

Should a lender be unable to complete the sale of a loan due to the loss of the original loan note guarantee (Form RD 3555-17) ~~form~~, the lender may request a copy from the Agency. The Agency will provide a copy marked "Duplicate Original" and reserves the right to assess a fee for this service.

4.1: Introduction

NEW: The new GovDelivery email notification address replaces the ListServ weblink. Click on this link to sign up to receive origination and servicing announcements from USDA.

4.6: Sell Loans Only to Approved Lenders A. Procedure



Clarification: Guidance has been amended to remove "terminate." Loans sold to non-approved USDA lenders will render the loan note guarantee invalid for the non-approved lender.

Clarification: If a lender does not have the "original" loan note guarantee, they may request a duplicate from USDA. The form number is inserted.

If the Agency determines that ~~the originating Lender~~ did not originate a loan in accordance with the requirements of 7 CFR 3555 and this Handbook, ~~and the Agency pays a loss claim under the loan note guarantee as a result of the originating Lender's nonconforming action or failure to act, the Agency may revoke the originating Lender's eligibility status in accordance with § 3555.52 Chapter 3 of this Handbook. The Agency may utilize available legal remedies against the originating lender, including revoking the originating lender's eligibility status in accordance with § 3555.52 and Chapter 3 of this Handbook.~~ and The Agency may also require the originating Lender:

- (1) To indemnify the Agency for the loss, if the ~~payment loan default~~ under the guarantee ~~was occurred made~~ within ~~60~~24 months of loan closing, when one or more of the following conditions is ~~satisfied~~present:
 - The originating lender utilized unsupported data or omitted material information when submitting the request for a conditional commitment to the Agency;
 - The originating Lender failed to properly verify and analyze the applicant's income and employment history in accordance with Agency guidelines;
 - The originating Lender failed to address property deficiencies identified in the appraisal or inspection report that affect the health and safety of the occupants or the structural integrity of the property;

[Scroll to Guaranteed Underwriting System \(GUS\) to access documents and training.](#)

Guaranteed Underwriting System (GUS)	
<i>Training</i>	<i>Documentation and Resources</i>
GUS Overview Training (Flash)	GUS Training (PDF)
	GUS User Guide (PDF)
	 Gaining Access To GUS Fillable Forms (PDF)
	 Gaining Access To GUS Guide (PDF)
	LOS/POS Tested Listing (PDF)

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

The revisions reflected in this resource to 7 CFR Part 3555 were published in the Federal Register on May 3, 2016. They are effective on June 2, 2016. The Federal Register notice is available online at:
<https://www.gpo.gov/fdsys/pkg/FR-2016-05-03/pdf/2016-10217.pdf>.

The revised HB-1-3555 will be published June 2, 2016 on the USDA Regulations and Guidance website online at:
<http://www.rd.usda.gov/publications/regulations-guidelines/handbooks#hb13555>

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

4.9: Indemnification

Clarification: Additional emphasis has been included to clarify that indemnification rests with the originating lender.

NEW: Originating lenders remain liable to indemnify USDA for losses paid under stated circumstances within 60 months of loan closing.

4.12: Additional Lender Responsibilities Upon Approval

Deleted: All USDA LINC screen shots have been deleted from this chapter in the event of website changes/design.