Rural Development
Housing and Community Facilities Programs
Guaranteed Housing Loans
DRAFT TECHNICAL HANDBOOK

Highlights of Changes

RD Instruction 3555, found at 7 CFR 3555, was published on December 9, 2013. The interim final rule will become effective on September 1, 2014.

The rule represents a framework which will update, reorganize, and simplify the Single Family Housing Guaranteed Loan Program (SFHGLP). It enhances program effectiveness by streamlining processes, reducing regulations, improving customer service, and strengthening the Agency's ability to manage the program.

A technical handbook (the Handbook) that supplements the rule will be used to administer the program efficiently and ensure that legal requirements are met. It will contain Administrative procedures currently in the existing rule, as well as guidance now published in multiple Administrative Notices (AN). The benefits of consolidating guidance into a single document include:

- **Streamlining**: The Handbook obviates the need for ANs to be reviewed, updated and republished annually. It will address questions—many of which are repetitive—from lender partners and representatives, saving those parties and the Field valuable time.
- **Efficiency**: The Handbook simplifies the updating of regulation, allowing the Agency to respond quickly to industry issues that impact program delivery.
- **Transparency**: The Handbook eliminates ambiguities in program requirements and helps industry staff and lenders by promoting sound decision-making in areas where judgment and discretion are required.

In addition to consolidating guidance, the Handbook expands upon rule changes originally introduced in the preamble of the RD 3555. It is impractical to separately identify all changes. Below are highlights of some of the key changes:

<u>Chapter 3: Expanded lender eligibility requirements</u>. Under the current rule, lenders who do not participate in other Federal programs or work with major secondary market entities are excluded from participation in the SFHGLP. In order to expand the SFHGLP universe of lenders so that small rural lenders have an opportunity to participate in the program, the final rule includes entities supervised and regulated by the Federal Deposit Insurance Corporation, the National Credit Union Administration, the Office of the Comptroller of the Currency, the Federal Housing Finance Board, or the Federal Reserve System. Additionally, for smaller rural lenders who do not have the capacity to escrow, the final rule allows the lender to obtain Agency approval of an alternative plan for ensuring real estate taxes and insurance are paid timely. The rule continues to require lenders to escrow funds if they have the capacity to do so.

<u>Chapter 6: Eligible Loan Purposes</u>. Language surrounding outbuildings on the property has been clarified. The previous land to total value limitation of 30% and in-ground pool restrictions has been removed. Take-out financing has been clarified to define a two-closing transaction with two closings and two sets of legal documents. A modification to the original note is not acceptable for permanent financing when the option of take-out financing has been selected. A single close construction to permanent loan option is available and further described in Chapter 12.

<u>Chapter 7: Loan Terms</u>. The definition of maximum interest rate has been modified. The maximum rate will be based upon the Fannie Mae rate for 30 year conventional mortgages for 90-day delivery (actual/actual) plus 100 basis points, rounded to nearest one-quarter of one percent.

<u>Chapter 8: Screening GSA SAM website.</u> The handbook updates the actions surrounding validating the U.S. General Services Administration's (GSA) System for Award Management (SAM) website as part of the eligibility decision. The approved lender, or their agent, is responsible for screening the applicant on the GSA SAM.gov website as part of their eligibility determination of the applicant. 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.

<u>Chapter 10: Adjustments to credit history requirements</u>. The rule will streamline the credit review process by allowing lenders to qualify potential applicants for the SFHGLP through a validated credit score rather than through individual credit indicators as required by the present rule. The credit score is an industry-proven tool that is very useful when ascertaining an applicant's credit reputation. It enables an underwriter to more accurately and effectively evaluate mortgage applicants objectively and with a greater degree of confidence.   By reducing the probability of originating mortgages with unacceptable credit, the use of credit scores can reduce the Agency's portfolio risk.

Chapter 12: Single close construction loan. The new rule will encourage new construction with a provision that combines construction and permanent loans. This feature is similar to the combined construction-to-permanent loan programs offered in the mortgage industry today. Traditionally borrowers interested in building a home had to close two loans to obtain both interim construction and permanent mortgage financing. A single close feature streamlines the closing process and reduces borrower costs by eliminating the need for separate loan closings.

Chapter 12: Appraisals. Under the rule, the lender is charged with selecting a qualified appraiser to prepare an appraisal of the realistic value of the potential collateral. In today's lending environment, the appraisal report is as important as a borrower's credit score when assessing risk. To ensure higher quality and more consistent appraisal reports, the interim final rule provides additional guidance regarding the type of appraisal and supporting documentation required in different circumstances. Additionally it requires all appraisal forms to be formatted so that investors can easily validate the collateral based on a series of rules known as the Uniform Appraisal Dataset. This uniform approach allows lenders, investors and the Agency to save time and money, and also conforms to industry compliance standards. In addition, the rule provides clear guidelines for the appraisal of properties under liquidation, if held in inventory.

Chapter 12: Interior Escrow. The new rule introduces criteria to consider interior escrows when repairs cannot be completed prior to loan closing.

Chapter 13: Manufactured Homes. The necessity to select an approved "dealer-contractor," required of the previous rule, is no longer applicable with the new rule.

Chapter 15: Maximum Age of Loan Application Documents.   Credit documents used in the origination and underwriting of a loan may not be more than 120 days old at the time of closing. The new rule eliminates the extended period of 180 days for new construction.

<u>Chapter 18 and 19: Delegated servicer authority</u>. With publication of the 7 CFR 3555 rule, servicers who meet criteria specified by the Agency will be delegated the authority to approve loss mitigation and property disposition plans for properties acquired through liquidation. The present rule requires that all plans be approved by the Agency. The final rule allows the delegation of approval authority to servicers with a demonstrated history of submitting accurate and complete information. If the servicer fails to perform further on in time, the delegation can be revoked. By reducing workflow and paperwork, the efficiencies generated through this process improvement not only benefit servicers who perform dependably and well, but also saves time for Agency personnel.

<u>Chapter 19 and 20: Limited interest for Real Estate Owned (REO) property</u>. The final rule reduces the holding period during which a lender can collect accrued interest on an REO property from 180 days under the present rule to 90 days. By implementing an interest cap at 90 days from the settlement date, it is anticipated that lenders will act more quickly to dispose of the REO property. Additionally, the Handbook expands upon an aggressive approach lenders can use to market the REO during the initial 90 day period which can result in a savings of interest, holding costs and staff time.