Updates to Handbook Chapters Prior to Publication:

**Chapter 1:**

Language in Section 1.6 has been modified by the Office of General Counsel surrounding equal opportunity and fair lending legislation language.

**Chapter 2:**

No changes from DRAFT version 1.

**Chapter 3:**

No changes from DRAFT version 1.

**Chapter 4:**

Section 4.6B was amended to remove reference to the liability of a servicer surrounding originating deficiencies involving the purchase of the loan. Section 4.9 outlines the indemnification rules surrounding the liability of the originating lender for errors, omissions, misrepresentations and fraud.

Section 4.12 under annual fees was updated to reiterate the Agency intends on charging late fees surrounding the lender’s non-payment of annual fees.

Section 4.12 was updated to include information for lenders on responsibilities surrounding automated access to loss mitigation, property disposition and loss administration.

**Chapter 5:**

Section 5.3A at “Credit Bureau Interface” was updated to correct the expiration date of the credit report (120 days for all transactions) to coincide with other guidance in the Handbook.

In response to questions, Section 5.3E, “Cash Reserves” was updated to 1) provide clarification surrounding the influence of gift funds in the cash reserve calculation in GUS; and 2) to provide additional guidance surrounding the calculation of the true value of liquid assets and the value to input on the “Assets and Liabilities” page of GUS.

Section 5.3I has been updated to correctly identify the FEMA form for Standard Flood Determination.

**Chapter 6:**

Section 6.2C, “Reasonable and Customary Expenses Associated with Purchase of a Dwelling” at the subject “Closing Costs” has been updated to clarify that lenders may pay an applicant’s closings and/or prepaid items by premium pricing. This type of lender payment is not included as part of the seller contribution limit.
Section 6.2D(1) under “Construction Financing” to remove language that requires the construction financing (non-single close transactions) to be a part of the loan package approved by the Agency.

Section 6.3 Prohibited loan purposes has been updated to conform to language at Section 12.4 of Chapter 12.

Section 6.3 under “Seller Contributions” has been updated with language to conform to the clarifying language input in Section 6.2C noted above.

Attachment 6-A under Applicant Eligibility has been updated to conform to the 7 CFR 3555 rule, which indicates the account must be current in the 180-day period prior to application.

**Chapter 7:**

No changes from DRAFT version 1.

**Chapter 8:**

Section 8.1 was updated regarding a personal interview with the applicant. The 1003 and mortgage industry recognizes personal interviews by mail or internet in addition to face-to-face or by telephone. Additional language recognizing the selection criteria available to lenders has been added to this section.

Section 8.2A under *Owning a Home* was updated to clarify the intent that an active grant agreement made the applicant ineligible.

In response to concern by lenders, Section 8.2A and C was updated to change verbiage regarding applicants occupying the home as their primary residence on a “permanent basis” to “throughout the term of the loan”.

In response to questions Section 8.2A has been amended to define the Agency’s definition of inadequate housing when retaining a home.

At Section 8.2A, guidance at the “Annual Income Calculation” bullet was added to clarify the calculation of household income when rental income is involved.

Section 8.2F language has been updated to coincide with the demonstrated graphic of “Institute Additional Verification.”

**Chapter 9:**

Section 9.3.B has been updated to clarify required documentation when an adult household member if presently not employed and does not intend to resume employment.
Section 9.3E1 “Full Documentation” at “Other Income” has been amended to coincide with earlier verbiage in the same section surrounding unemployment and the past 12 month historical receipt of that type of income when calculating annual household income.

Section 9.3E1 “Full Documentation” at the subject “Verification of Gift Funds” has been amended in response to questions to clarify that excess gift funds at settlement may be returned to the applicant.

Section 9.5(2) “Dependent Deduction” was clarified to address qualifying dependents when it is unclear if a deduction can be made. An example may be of a part-time child whose custody is shared with another parent. Lenders will utilize IRS Publication 501 to assist in the determination.

Section 9.10 has been amended to clarify the use of Social Security income when income is received on behalf of a minor who resides in the household.

Section 9.10 A11 has been revised to remove language surrounding the inclusion of foster care income as a type of repayment income. Language at this section conflicted with language at Section 9.11 of the same chapter.

Section 9.10 A13 was updated to correct language from gross income to repayment income under Automobile Allowances and Expense Account Payments.

Section 2, “Repayment Income” under Paragraph 9.10 A.12 under “Stable and Dependable” income has been updated to provide detailed guidance to lenders on the data entry fields to capture when utilizing GUS vs. a manually (non-GUS) submitted loan.

Section 9.10 C1 has been updated to insert language that would indicate if the lender is unable to validate the stability of self-employed income it should not be used for when qualifying the loan for repayment purposes.

Section 9.11A was updated to clarify the documentation required when a lender uses the MCC tax credit to qualify the applicant for the loan. Some lenders may use this feature as a benefit, not considering the MCC credit in the qualifying ratio analysis. This type of analysis that excludes the benefit of the tax credit resulting from the MCC in the qualifying ratio analysis will not require MCC documentation as outlined in this section.

Section 9.11B 2 under “Buydown Requirements” was updated to clarify funds can be from a seller, lender or other interested party.

**Chapter 10:**

In response to questions from lenders, Section 10.2 (Credit Eligibility Requirements) and Section 10.11 (Credit Exceptions) has been updated to modify language from “streamlined documentation” to “abbreviated documentation”. Language has been clarified that a list of abbreviated documentation can be found in Chapter 15 of the Handbook.
Section 10.5 was updated to clarify that three historical trade-line references are required to validate the credit score.

Section 10.7A has been updated to clarify that rent payments paid late in the previous 12 months is an indicator of unacceptable credit.

Section 10.7A has been updated regarding authorized user accounts to conform to language found in Section 10.13 which indicates if the owner of an authorized trade-line is the spouse of an applicant the criteria is met to continue with an “ACCEPT” recommendation when using GUS without the necessity to downgrade the applicant and consider a manual underwriting.

Language in Attachment 10-B was updated to reiterate the lenders responsibility surrounding the credit review when the applicants have no demonstrated or verified history of paying rent or a mortgage payment prior to the loan purchase request.

**Chapter 11:**

Section 11.2B was updated at the bullet “Student Loans” to clarify the payment amount (the fixed payment or 1% of the loan balance if not fixed) used in calculating the total debt ratio and the documentation required (no additional documentation if obtaining a credit report).

In response to questions for clarification, Section 11.2B “Debts of non-purchasing spouse” has been clarified that the applicant resides or the property purchased is located in a community property state.

Section 11.2B “Automobile Allowances” and “Employee Expense Account Payments” were combined and clarified to validate that expenses that must always be treated as recurring debt include the applicant’s monthly car payment AND any loss resulting from the calculation of the difference between actual expenditures and the expense account allowance. Lenders will refer to IRS Form 2106 for documentation.

Additional guidance was provided in Section 11.2B at the bullet “Payments that will come due in the next 24 months” to distinguish student loan debts are treated separately from guidance at this bullet.

Section 11.4 under “Mortgage Credit Certificate (MCC)” was updated to clarify the documentation required when a lender uses the MCC to qualify the applicant for the loan. Some lenders may use this feature as a benefit, not considering the MCC credit in the qualifying ratio analysis. This type of analysis that excludes the benefit of the MCC in the qualifying ratio analysis will not require MCC documentation as outlined in this section. This section was also updated to confirm to language in Chapter 9, Section 9.11A that indicates the amount of monthly tax credit resulting from the MCC will be utilized as a direct reduction in housing expense.

**Chapter 12:**

Section 12.2 has been updated to clarify the Agency’s expectation regarding remaining economic life of the structure as of the date of the appraisal.
Section 12.3C was updated to remove an erroneous reference to language allowing loan guarantees on properties re-designated as non-rural. The remaining language closely mirrors the Section 502 Direct program.

Section 12.4 under Income Producing Buildings and Income Producing Land has been updated to conform to language found at Section 6.3 of Chapter 6.

Section 12.5B, Appraisal Report has been updated to indicate that one method of cost approach is required for all dwelling of more than 1 year old.

Section 12.5D(2), 12.5D(3) was amended to remove reference to internal control responsibilities of states. It has been incorporated and combined into one minimal acceptable recommendation for combined technical desk and field reviews at Section 12.5D(4).

Section 12.6A was updated to clarify when the Agency may accept water purification systems as an acceptable source of water.

Section 12.6B(1) has been amended to recognize certain recorded documents that establish access to the system when any portion of a wastewater system (such as leach lines) are located on an adjacent property.

Section 12.7A and B was amended to update language and strike the requirement for a road maintenance agreement for vehicular access to the property when served by a private street/roadway or shared driveway. This coincides with FHA/HUD language on this subject.

Section 12.10B was updated to correctly identify FEMA Form 086-0-33, formerly known as FEMA Form 81-31, Elevation Certificate. It has also been updated with language to comply with the Biggert Waters and Flood Insurance Affordability Act and the Homeowner Flood Insurance Affordability Act (HFIAA) of 2014. Language has also been modified to recognize that state or federal law may supersede Agency policy regarding deductibles for flood insurance.

Section 12.11 has been updated with language to allow lenders to self-certify project approval when the lender meets the criteria of self-certification set forth by HUD/FHA, VA, Fannie Mae or Freddie Mac, as applicable.

Section 12.11(2) has been added to discuss the eligibility of detached condominiums/site condominium eligibility.

Section 12.11(3) has been updated in response to questions surrounding the eligibility criteria for condominiums. The project must be approved or accepted by HUD/FHA, VA, Fannie Mae or Freddie Mac.

Section 12.12 has been updated to clarify the IECC codes required for energy efficiency, as identified by the Agency.
Section 12.13 has been updated with language that clarifies the single close option is considered a purchase transaction by the Agency, in lieu of a refinance transaction.

Section 12.15 has been updated with language that clarifies how a publically held entity meets the credit check and background requirements to be an eligible builder for the construction to permanent loan feature. This language was added in response to questions.

Section 12.16 has been updated to increase the reserve limitation in a single close transaction from 2% to 10% to better coincide with mortgage industry practice.

Attachment 12-D has been updated regarding the IECC Code as a conforming change mirroring like language earlier in the chapter. The IECC code recognized by the Agency is IECC 2009 and will be modified periodically as newer codes are recognized by states and adopted by the Agency.

**Chapter 13:**

Section 3 of Chapter 13 was updated to confirm permanent on-frame homes do not meet the definition of modular homes, in response to questions.

**Chapter 14:**

No changes from DRAFT version 1.

**Chapter 15:**

Section 15.2 has been updated with examples of parties to the note that require a lender to check the U.S. General Services Administration (GSA) list of parties excluded from participating in Federal procurement and non-procurement programs.

Section 15.3 has been updated to include language regarding an electronic method of submitting Conditional Commitment requests.

Section 15.3 has been updated reiterating the lender’s responsibility to satisfy pre-Conditional Commitment conditions identified on the GUS Underwriting and Findings Report prior to requesting the Conditional Commitment for Loan Note Guarantee from the Agency.

Section 15.4 has been updated with Agency guidance on accepting electronic signatures in conjunction with the SFHGLP. Each subsequently numbered section has been renumbered by the insertion of this guidance. Example: Section 15.4 (formerly with the subject of “Agency Review of Application” has been renumbered to Section 15.5).

Section 15.7 was clarified to require staff to use a standard process to note conditions known in GLS as Form RD 3555-18A, Attachment to Form RD 3555-18.

Attachment 15-D has been renumbered to Attachment 15-B. Attachments B and C have been removed.
Chapter 16:

Section 16.1 was updated to reiterate that lenders must seek Agency approval for modifications that adversely affect an issued conditional commitment prior to proceeding to closing.

Section 16.2 was updated to recognize the automated method available to lenders when certifying a loan was closed in accordance with the issued Conditional Commitment.

Section 16.2 “Closing the Loan” at the subject “Signatures” was updated to make reference to the Agency accepting electronic signature as further outlined in Section 15.4 of Chapter 15.

Section 16.3 was updated to reiterate the expectation of lenders to use electronic loan closing as the method for submitting Loan Note Guarantee requests.

Section 16.3B was updated to recognize the settlement date, under Block I of the HUD-1 Settlement date as the loan closing date recognized by the Agency. Updated language was place under “Request for Loan Guarantee.”

Section 16.4 corrected a typographical error surrounding the up-front guarantee fee. Changing the word from “one” to “two.”

Section 16.5 was renumbered to accommodate language added surrounding annual assessed by the Agency.

Section 16.6 Closing Date has been renumbered to 16.7.

Sections 16.6B and 16.8 have been updated to recognize the electronic version (and form number) of the Loan Note Guarantee. An electronically issued Loan Note Guarantee will be Form RD 3555-17E.

Section 16.7 Duplicate Loan Note Guarantee has been renumbered to 16.8.

Section 16.8 has been updated to recognize that a duplicate Loan Note Guarantee will be classified as a “Reissued Loan Note Guarantee.”

Section 16.8 Selling Loans has been renumbered to 16.9.

Section 16.9 Acceptable Lien Position has been renumbered to 16.10.

Section 16.10 Ownership Requirements has been renumbered to 16.11.

Section 16.11 language has been modified to clarify the originating lender may be subject to indemnification for failure to obtain adequate security lien position in the case of a loss payment request.

Section 16.11C (2) has been modified to clarify flood insurance requirements and recognize state and federal laws that may supersede Agency requirements surrounding flood insurance deductibles.
Chapter 17:
Section 17.1 was updated to clarify the Agency’s actions surrounding indemnification and the payment of loss claims when originating lenders do not adhere to originating a loan in accordance with 7 CFR 3555.

Section 17.2B has been updated to clarify the maximum amount of late fee.

Chapter 18:
Section 18.3 has been updated to clarify that certain laws may prevent or suspend debt collection efforts, such as the debtor filing a bankruptcy.

Section 18.3A has been updated to clarify servicers must make an attempt to contact the borrower either verbally or in writing.

Section 8.3 E regarding proceeding to liquidation has been updated with conforming language found at Sections 18.6 and 18.7 of the same handbook chapter.

The word “temporary” was removed from Section 18.5, Loss Mitigation Options.

Language was removed that clarifies the eligibility of short sales. The Loss Mitigation guide will provide the elements of eligibility.

Section 18.8A has been clarified to indicate the Agency will follow HUD’s currently published Schedule of Acceptable Foreclosure Time-Frames.

Section 18.8B has been clarified to indicate the Agency will follow HUD’s currently published Schedule of Standard Attorney Fees.

Section 18.10 Property Protection was updated to clarify servicers are required to monitor repairs when a deposit of the insurance proceeds occur, in lieu of releasing insurance proceeds to the borrower.

Section 18.11 regarding Natural Disaster relief measures has been updated to provide, as an example of a relief measure – forbearance. It also has been updated to clarify the servicer must instruct the borrower to file for insurance proceeds when considering special relief in natural disasters.

Section 18.12 – Property Damage and Insurance claims has been updated to reiterate the servicer’s responsibility surrounding action to take to protect the interests of the borrower and Agency. It was also updated for clarification to remove language regarding “anticipated insurance proceeds” since servicers are notified once proceeds are determined.

Attachment 18-A has been updated with HUD’s present Schedule of Acceptable State Foreclosure Time Frames.

Chapter 19:
Section 19.2A has been updated to clarify that entry to a repossession to change exterior locks may be delayed due to state law.

Section 19.4 B Appraisal has been updated to clarify an occupied property may prohibit an internal inspection in accordance with state law.

Section 19.4 C List Price has been updated in response to questions from lenders. New language will define an aggressive marketing approach to ensure properties are sold in the first 90 days of the marketing time frame.

**Chapter 20:**

Section 20.2B (2) has been updated to correct language directing the lender to notify the Agency when the property remains unsold at the end of the marketing period.

Section 20.5B has been amended to coincide with language found in Section 4.9 of Chapter 4 surrounding indemnification. Indemnification holds the originating lender liable in instances as defined in Section 4.9.

**Appendix 1:**

No changes from DRAFT version 1.

**Appendix 2:**

No changes from DRAFT version 1.

**Appendix 3:**

No changes from DRAFT version 1.

**Appendix 4:**

No changes from DRAFT version 1.

**Appendix 5:**

No changes from DRAFT version 1.

**Appendix 6:**

No changes from DRAFT version 1.

**Appendix 7:**

No changes from DRAFT version 1.
Appendix 8:

No changes from DRAFT version 1.

Appendix 9:

# 4 of Appendix 9 has been updated to clarify the originating lender can be subject to reductions and
denials of loss claim payment on property.

#14 of Appendix 9 was amended to clarify the originating lender has the liability for origination errors
involving a loss payment request by a servicer.

Acronyms:

No changes from DRAFT version 1.

Glossary:

No changes from DRAFT version 1.

Forms:

Form RD 3555-21 has been updated to merge the GSA/SAMS question into one line on the form.

Form RD 3555-17 has been updated under #8 to identify the St. Louis email as the location to contact
when the loan is paid in full.

Form RD 3555-17E has been created for the automated method of lender loan closing recognizing a
system generated approval signature.

No change to balance of forms associated with 7 CFR 3555.